Chesapeake Gold Corp.

Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
(expressed in thousands of Canadian dollars, except where indicated)

SATURNA GROUP
CHARTERED PROFESSIONAL ACCOUNTANTS LLP
1066 West Hastings Street, Suite 1250
Vancouver, BC Canada V6E 3X1

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Chesapeake Gold Corp.

Opinion

We have audited the consolidated financial statements of Chesapeake Gold Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $4,011,800 during the year ended December 31, 2018 and, as of that date, had a deficit of $92,206,100. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Henry Chow.

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

April 30, 2019

Chesapeake Gold Corp.

Consolidated Statements of Financial Position

(amounts expressed in thousands of Canadian dollars, except where indicated)

	Note	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		$ 15,627.6	$ 18,914.2
Other receivables and prepaid expenses	5	440.4	316.2
Marketable securities	7	1,310.7	1,731.0
		17,378.7	20,961.4
Long-term investments	7	480.3	1,029.6
Investment in mineral properties	8	73,355.1	72,021.3
Equipment	9	53.1	62.4
Reclamation bond		249.2	205.8
Total assets		$ 91,516.4	$ 94,280.5
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,420.3	$ 1,144.4
Promissory note	9	700.0	-
Convertible debenture	10	-	700.0
		2,120.3	1,844.4
Deferred income tax liabilities	16	6,030.1	5,838.9
Decommissioning obligation		318.0	273.1
Total liabilities		8,468.4	7,956.4
Shareholders' equity			
Share capital	11	148,353.3	148,293.9
Reserves		25,256.0	25,169.8
Deficit		(92,206.1)	(89,071.3)
		81,403.2	84,392.4
Non-controlling interest ("NCI")		1,644.8	1,931.7
Total shareholders' equity		83,048.0	86,324.1
Total liabilities and shareholders' equity		$ 91,516.4	$ 94,280.5

Nature of operations (note 1)
Subsequent event (note 17)

Approved by the Board of Directors

___________"P. Randy Reifel"_____________ Director _________"Greg Smith"__________ Director

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

Chesapeake Gold Corp.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2018 and 2017

(amounts expressed in thousands of Canadian dollars, except where indicated)

	Notes	2018	2017
Operating expenses			
Depreciation	9	(16.9)	(16.8)
Exploration		(234.6)	(268.9)
General and administrative	13	(614.8)	(689.2)
Management fees	13	(250.0)	(250.0)
Professional fees	13	(143.9)	(197.7)
Share-based compensation	12	(1,407.5)	(1,672.7)
		(2,667.7)	(3,095.3)
Other income (expenses)			
Finance income		443.0	420.5
Finance cost		(125.8)	(103.8)
Foreign exchange loss		(102.3)	(73.9)
Impairment of investment in mineral properties	7	(571.2)	-
Unrealized loss on marketable securities and investments	7	(796.6)	-
Net loss before income taxes		(3,820.6)	(2,852.5)
Deferred income tax (expense) recovery	16	(191.2)	684.1
Net loss		(4,011.8)	(2,168.4)
Other comprehensive income (loss)(“OCI”)			
Items that may be reclassified subsequently to net earnings:			
Cumulative translation adjustment		(712.1)	182.2
Unrealized loss on investments	7	-	(782.3)
Total comprehensive income (loss)		(4,723.9)	(2,768.5)
Net income (loss) attributable to			
Shareholders of the Company		(3,706.6)	(2,177.0)
Non-controlling interest		(305.2)	8.6
		(4,011.8)	(2,168.4)
Other comprehensive loss attributable to			
Shareholders of the Company		(712.1)	(487.4)
Non-controlling interest		-	(112.7)
Total other comprehensive loss		(712.1)	(600.1)
Loss per share – basic and diluted		$ (0.09)	$ (0.05)
Weighted average shares outstanding (000’s) – basic and diluted		44,569	44,546
Total shares issued and outstanding (000’s)		44,574	44,555

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

Chesapeake Gold Corp.

Consolidated Statement of Changes in Equity

(amounts expressed in thousands of Canadian dollars, except where indicated)

			Attributable to Shareholders of the Company							
	Notes	Shares ('000)	Share capital	Share-based compensation reserves	Foreign translation reserves	Investment revaluation reserves	Deficit	Total for owners	NCI	Total equity
Balance at December 31, 2017		44,555	$ 148,293.9	$ 22,540.5	$ 2,057.5	$ 571.8	$ (89,071.3)	$ 84,392.4	$ 1,931.7	$ 86,324.1
Net loss for the year		-	-	-	-	-	(3,706.6)	(3,706.6)	(305.2)	(4,011.8)
Cumulative translation adjustment		-	-	-	(712.1)	-	-	(712.1)	-	(712.1)
Unrealized loss on investments transferred to deficit upon adoption of IFRS 9		-	-	-	-	(571.8)	571.8			
Options exercised	11, 12	19	59.4	(19.1)	-	-	-	40.3	-	40.3
Share-based compensation charges	12	-	-	1,389.2	-	-	-	1,389.2	18.3	1,407.5
Balance at December 31, 2018		44,574	$ 148,353.3	$ 23,910.6	$ 1,345.4	$ -	$ (92,206.1)	$ 81,403.2	$ 1,644.8	$ 83,048.0
Balance at December 31, 2016		44,517	$ 148,175.0	$ 20,900.2	$ 1,875.3	$ 1,241.4	$ (86,894.3)	$ 85,297.6	$ 2,041.7	$ 87,339.3
Net loss for the year		-	-	-	-	-	(2,177.0)	(2,177.0)	8.6	(2,168.4)
Cumulative translation adjustment		-	-	-	182.2	-	-	182.2	-	182.2
Options exercised		38	118.9	(38.3)	-	-	-	80.6	-	80.6
Unrealized loss on investments		-	-	-	-	(669.6)	-	(669.6)	(112.7)	(782.3)
Share-based compensation charges		-	-	1,678.6	-	-	-	1,678.6	(5.9)	1,672.7
Balance at December 31, 2017		44,555	$ 148,293.9	$ 22,540.5	$ 2,057.5	$ 571.8	$ (89,071.3)	$ 84,392.4	$ 1,931.7	$ 86,324.1

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

Chesapeake Gold Corp.

Consolidated Statements of Cash Flows

For year ended December 31, 2018 and 2017

(amounts expressed in thousands of Canadian dollars, except where indicated)

	Note	2018	2017
Cash used in operating activities			
Net loss for the year		$ (4,011.8)	$ (2,168.4)
Items not affecting cash			
Depreciation	9	16.9	16.8
Deferred income tax expense (recovery)		191.2	(684.1)
Unrealized foreign exchange loss		102.3	73.9
Unrealized loss on marketable securities and investments	7	796.6	-
Share-based compensation	12	1,407.5	1,672.7
Impairment of investment in mineral properties	8	571.2	-
Other		(52.0)	(46.0)
		(978.1)	(1,135.1)
Changes in non-cash operating working capital			
Other receivables and prepaid expenses		(124.2)	73.1
Accounts payable and accrued liabilities		285.1	133.1
		(817.2)	(928.9)
Cash flows provided by financing activities			
Proceeds from related party loan	13	45.0	-
Proceeds from stock options exercised		40.3	80.6
		85.3	80.6
Cash flows used in investing activities			
Proceeds from sale of marketable securities		225.0	-
Proceeds from option agreement payments		-	1,343.0
Mineral property expenditures		(2,617.1)	(2,673.1)
		(2,392.1)	(1,330.1)
Decrease in cash and cash equivalents		(3,124.0)	(2,178.4)
Foreign exchange rate changes on cash and cash equivalents		(162.6)	(121.8)
Cash and cash equivalents – beginning of year		18,914.2	21,214.4
Cash and cash equivalents – end of year		$ 15,627.6	$ 18,914.2
Cash		$ 1,097.0	$ 1,332.0
Cashable guaranteed investment certificates		14,530.6	17,582.2
Cash and cash equivalents – end of year		$ 15,627.6	$ 18,914.2
Supplemental cash flow information			
Mineral property disposal – shares received		-	620.0

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

1 Nature of operations

Chesapeake Gold Corp. ("Chesapeake" or the "Company") is a Canadian mining company focused on the exploration, development and recovery of precious metals. The Company is in the development stage and does not generate mining revenues from operations. The Company's operations are principally directed towards the development of the Metates project in Durango State, Mexico and generating a pipeline of exploration projects in northwestern Mexico.

The Company is domiciled in Vancouver, Canada and its common shares are listed on the TSX Venture Exchange under the trading symbol "CKG.V". The Company also trades on the OTCQX marketplace in the United States, under the symbol "CHPGF". The Company's head office is at Suite 201 – 1512 Yew Street, Vancouver BC, V6K 3E4, Canada.

On November 26, 2010, the Company acquired an 81.93% interest in Gunpoint Exploration Ltd. ("Gunpoint") through a vesting of the Nevada Talapoosa Gold Project into Gunpoint. As a result of this transaction, the Company acquired control of Gunpoint. Subsequent to Gunpoint's financing in October 26, 2012, the revised ownership decreased from 82% to 74%.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company had a consolidated net loss of $4,011.8 (2017 - $2,168.4) for the year ended December 31, 2018, and an accumulated deficit of $92,206.1 as at December 31, 2018 (2017 - $89,071.3). The Company's working capital as at December 31, 2018 is $15,258.4 (2017 - $19,117.0). To date, the Company has not generated operating revenue from its mineral properties. The ability of the Company to continue as a going concern is dependent upon obtaining additional equity and/or debt financing to complete the exploration and development of its mineral property interests and to commence profitable operations. Notwithstanding the illiquid capital markets for the mining sector and uncertainty to other key economic variables, the Company has sufficient resources to fund its exploration and development operations for more than a year.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies set out below were consistently applied to all periods presented.

The Board of Directors approved this set of financial statements on April 30, 2019.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

New Accounting Standards Issued But Not Yet Effective

IFRS 16 – Leases

On January 6, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. IFRS 15 replaces IAS 17 Leases and the effective date for reporting periods beginning on or after January 1, 2019 with early adoption permitted. For lessees, IFRS 16 will bring most leases onto the consolidated statements of financial position under a single model, eliminating the distinction between operating and finance leases. Lessors will continue accounting for leases under a dual lease classification model, and the classification between operating and finance leases will determine how and when a lessor will recognize revenue, and what assets would be recorded.

The Company will be adopting IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company will be adopting the exemption for leases with a lease term of 12 months or less and for leases that are low value. While the assessment of the impact is still being determined, and the Company is not currently in a position to reliably quantify the full impact of IFRS 16 on its consolidated financial statements, the Company expects the adoption of this standard to increase asset by recording a right-of-use asset upon adoption. There will also be an increase to liabilities as a corresponding liability will also be recorded in the consolidated financial statements. The Company also expects an impact from the reclassification of lease expense from operating expense and general and administration expense to depreciation expense and interest expense. There will be no impact on the consolidated statement of cash flows as cash flows from operating activities will increase as payments will be reclassified to cash flows from investing activities.

New Accounting Standards Adopted during the period

IFRS 9 – Financial Instruments (“IFRS 9”)

In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity’s business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The amended standard was adopted on January 1, 2018 and the impact to the Company’s financial statements will be to classify its investments to fair value through profit or loss. The Company adopted IFRS 9 retrospectively without restatement of comparative amounts resulting in a reclassification of $571.8 from accumulated other comprehensive income to deficit on January 1, 2018. Future changes in the fair value of these investments will be recorded directly in the consolidated statement of operations. No other differences of any significance have been noted in relation to the adoption of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)

In May 2014, IASB issued IFRS 15 to replace IAS 18 – Revenue, which establishes a new single five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The amended standard was adopted on January 1, 2018 and did not have an impact on the consolidated financial statements.

3 Estimates, risks, and uncertainties

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The followings are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

i. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management;
ii. Management is required to assess the functional currency of each entity of the Company. The Company determined the Canadian dollar to be its functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions;
iii. Management is required to assess impairment in respect of its investment in mineral properties. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful, and some assets are likely to become impaired in future periods.
iv. Although, the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company’s title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Accounting Estimates and Assumptions

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, an additional liability could result from audits by taxing authorities. Where the final outcomes of these tax-related matters are different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
ii. Management estimates the fair values of share-based payment arrangements using the Black-Scholes option pricing model.
iii. Management's assessment regarding the Company's ability to continue as a going concern.
iv. Other significant accounting estimates include valuation of other receivables, marketable securities, and long-term investments, carrying value of mineral properties, and the useful lives and carrying value of equipment.

4 Significant accounting policies

Principles of consolidation

Control exists when the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to offset those returns through its power over the subsidiary. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until control ceases. The following subsidiaries are consolidated: Minerales El Prado S.A. de C.V. (Mexico) and American Gold Capital Corporation (British Columbia). The accounts of American Gold Capital Corporation's wholly-owned subsidiaries, Metates Mining Enterprises LLC (Delaware) and its wholly-owned subsidiary American Gold Metates S. de R.L. de C.V. (Mexico) are also included in these consolidated financial statements. During 2010, the Company acquired an 81.93% interest in Gunpoint in exchange for transferring all of its interest in American Gold Capital US Inc. (Nevada) ("American Gold US") to Gunpoint. From March 26, 2010 onwards, they also include the accounts of Gunpoint as well as the recognition of an 18.07% non-controlling interest (increased to 25.54% in October 2012) in Gunpoint and its wholly owned subsidiaries stated above. All significant inter-company balances and transactions have been eliminated upon consolidation.

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method in accordance with IFRS 3, Business Combinations. The cost of an acquisition is measured as the sum of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Company's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. The excess of: (i) total consideration transferred by the Company, measured at fair value, including contingent consideration, and (ii) the non-controlling interests in the acquiree, over the acquisition date fair value of net assets acquired, is recorded as goodwill. Acquisition costs incurred are expensed.

Goodwill arising on an acquisition is recognized as an asset and initially measured at cost. Goodwill is not amortized; rather it is tested annually for impairment or at any time during the year that an indicator of impairment is identified.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit, highly liquid short term deposits and guaranteed investment certificates with major financial institutions, and fixed income securities with a term to maturity of three months or less at the date of acquisition that are readily convertible into known amounts of cash and subject to insignificant risk of changes in value.

Reclamation bond

The Company maintains cash deposits that are restricted to the funding of reclamation costs. For the Talapoosa property in Nevada, USA, the Company has placed cash on deposit to fund future reclamation costs anticipated under a reclamation plan approved by the State of Nevada. Reclamation deposits are designated as amortized cost, and are classified as a non-current asset.

Comprehensive income (loss)

Comprehensive income (loss) is the change in equity (net assets) of an enterprise during a period from transactions, events and circumstances other than those under the control of management and the owners. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. In accordance with this standard, the Company reports comprehensive income (loss) in its consolidated statement of operations and accumulated other comprehensive income (loss) in its consolidated statement of changes in equity. The components of other comprehensive income or loss include foreign currency translation adjustments.

Foreign currency translation

The functional currency of the reporting entity and each of its foreign operations must be assessed independently giving consideration to the primary economic environment in which each reporting entity operates. Management has determined that the functional currencies of Minerales el Prado, its Mexican subsidiary is the Mexican Peso as this is the currency of the primary economic environment in which the Company operates. The Company and its other subsidiaries have the Canadian dollar as their functional currency.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities in foreign currencies are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in the consolidated statement of operations.

Mineral properties

The Company capitalizes mineral properties expenditures at cost for expenditures incurred after it has obtained legal rights to explore a specific area and before technical feasibility and commercial viability of extracting mineral resources are demonstrable.

All direct and indirect costs relating to the exploration of specific properties with the objective of locating, defining and delineating mineral reserves on specific properties are capitalized as investment in mineral properties. Government assistance, mining duty credits, and optionee commitments are applied against mineral property costs.

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefit either from future exploration or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management makes certain estimates and assumptions about future events or circumstances, in particular when an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the consolidated statement of operations in the period when the new information becomes available. Exploration and evaluation expenditures are evaluated annually and then reclassified as mineral properties upon completion of technical feasibility and commercial viability.

Equipment

Equipment is recorded at cost. Amortization is provided at annual rates on a declining balance basis over the estimated useful lives of the equipment as follows:

Asset	Rate
Office, furniture, and computers	10%
Vehicles	25%
Exploration equipment	10%

Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of operations.

Impairment

The Company reviews the carrying value of long-lived assets for impairment when circumstances indicate an asset's value may not be recoverable. The evaluation is based on the higher of the asset's fair value less costs to sell and its value in use, which is the present value of future cash flows expected to be derived from the asset in its current state. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds its recoverable amount. Impairment loss is recorded in the consolidated statement of operations.

Decommissioning obligations

The Company recognizes statutory, contractual, and other legal obligations related to the retirement of tangible long-lived assets. These obligations are initially measured at fair value and subsequently adjusted for the accretion of any discount and changes in the underlying future cash flows and discount rate. The asset retirement cost is capitalized to the related asset and amortized to operations over time.

The Company recognizes the fair value of the liability for a decommissioning obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to retire the obligation. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of operations. The increase in the carrying value of the asset is amortized on the same basis as the resource properties.

Share-based compensation

The Company's share option plan provides for the granting of stock options to directors, officers, consultants and employees, which allow them to purchase common shares of the Company. The fair value of all share-based awards is estimated using the Black Scholes option pricing model at the grant date and expensed to operations over the vesting period. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively. None of the Company's awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in the share-based payment reserve is recorded as an increase in issued capital. In the event that the options expire or are cancelled, previously recognized compensation expense associated with such stock option is not reversed.

When the Company issues units that are comprised of a combination of common shares and warrants, the value is assigned to common shares and warrants based on their relative fair values. The fair value of the warrants is estimated using the Black-Scholes option pricing model at the issuance date.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax losses and other deductions carried forward.

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A reduction in respect of the benefit of a deferred income tax asset is recorded against any deferred income tax asset if it is probable that there will be future taxable income to offset. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

Recognition of interest income

Interest from cash and cash equivalents and fixed income marketable securities are recorded on an accrual basis when collection is reasonably assured.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the reporting period. The Company uses the treasury stock method for computing diluted loss per share. This method assumes that any proceeds obtained upon exercise of outstanding options or warrants would be used to purchase common shares at the average market price during the period. As the Company has recorded a net loss for each of the periods presented, basic and diluted net loss per share are the same as the exercise of stock options or share purchase warrants are anti-dilutive. As at December 31, 2018, the Company had 5,233,000 (2017 – 5,501,000) potentially dilutive shares relating to outstanding stock options.

Share issuance costs

Professional, consulting, regulatory, and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issuance costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are charged to the consolidated statement of operations.

Financial Instruments - Recognition and Measurements

(i) Non-derivative financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and cash equivalents, and other receivables are measured at amortized cost with subsequent impairments recognized in the consolidated statement of operations. Marketable securities and long-term investments are classified as FVTPL.

<u>Impairment</u>

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. The Company recorded a bad debt expense based on the expected credit loss model.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(ii) Non-derivative financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and promissory note payable are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in the consolidated statement of operations.

(iii) Derivative financial instruments

The Company issues warrants exercisable in a currency other than the Company's functional currency and as a result, the warrants are derivative financial instruments.

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value with changes in fair value recognized in the consolidated statement of operations. Transaction costs are recognized in the consolidated statement of operations as incurred.

Investment in associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as

adjusted for post-acquisition changes in the Company's share of the net income or loss of the associate, less any impairment in the value of the investment or dilution of the shareholding in the investment.

5 Other receivables and prepaid expenses

	December 31, 2018	December 31, 2017
Other receivables	$ 261.8	$ 135.6
Prepaid expenses	178.6	180.6
	$ 440.4	$ 316.2

6 Financial instruments and risk management

Fair values of financial instruments

The fair values of financial instruments are summarized as follows:

	December 31, 2018		December 31, 2017	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Financial assets				
Cash and cash equivalents	15,627.6	15,627.6	18,914.2	18,914.2
Marketable securities	1,310.7	1,310.7	1,731.0	1,731.0
Long-term investments	480.3	480.3	1,029.6	1,029.6
Financial liabilities				
Accounts payable and accrued liabilities	1,420.3	1,420.3	1,144.4	1,144.4
Promissory note	700.0	700.0	700.0	700.0

Fair value measurements

The following table sets forth the Company's assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total, December 31, 2018
Cash and cash equivalents	$ 15,627.6	$ -	$ -	$ 15,627.6
Marketable securities	1,310.7	-	-	1,310.7
Long-term investments	480.3	-	-	480.3
	$ 17,418.6	$ -	$ -	$ 17,418.6

	Level 1	Level 2	Level 3	Total, December 31, 2017
Cash and cash equivalents	$ 18,914.2	$ -	$ -	$ 18,914.2
Marketable securities	1,731.0	-	-	1,731.0
Long-term investments	1,029.6	-	-	1,029.6
	$ 21,674.8	$ -	$ -	$ 21,674.8

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between the levels during the year ended December 31, 2018.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, and long-term investments. The Company's marketable securities and long-term investments are held in bonds and common shares of publicly traded companies. The carrying amount of the financial assets represents the maximum credit exposure. The Company's cash and cash equivalents are held through large Canadian financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company settles its financial liabilities using its cash. The Company manages liquidity risk through the management of its capital structure as described in Note 14. The accounts payable and accrued liabilities is due within the current operating period.

Market Risk

The Company's financial instruments include investments which are publicly traded and therefore subject to the risks related to the fluctuation in market prices of publicly traded securities. The Company closely monitors market values to determine the most appropriate course of action.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed income cash equivalents and investments, of varying maturities. A 1% change in market interest rates would result in no significant change in value of cash and cash equivalents. The risk that the Company will realize a loss as a result of a decline in the fair value of these assets is limited as they are generally held to maturity and held with large Canadian financial institutions.

Foreign Exchange Rate Risk

Currency risk is the risk of a loss due to the fluctuation of foreign exchange rates and the effects of those fluctuations on the Company's foreign currency denominated monetary assets and liabilities. The Company currently operates in the United States, Mexico, and Guatemala. Certain costs and expenses are incurred in US dollars, Mexican pesos, and Guatemala quetzal. The Company attempts to mitigate currency risk through the preparation of short and long-term expenditure budgets in the foreign currencies and planning for the conversion of Canadian dollars into foreign currencies whenever exchange rates are favourable.

7 Long-term investments and marketable securities

	December 31, 2017 Fair value	Acquired and reclass	Proceeds received from redemption	Realized and unrealized (loss)/gain	December 31, 2018 Fair value
Marketable securities	$ 1,731.0	$ -	$ (225.0)	$ (195.3)	$ 1,310.7
Long-term investments	$ 1,029.6	$ 52.0	$ -	$ (601.3)	$ 480.3

During the year ended December 31, 2018, the Company acquired through option agreements (see note 8) 300,000 common shares of Riverside Resources Inc. (valued at $52.0).

	December 31, 2016 Fair value	Acquired and reclass	Proceeds received from redemption	Realized and unrealized loss	December 31, 2017 Fair value
Marketable securities	$ 2,066.9	$ -	$ -	$ (335.9)	$ 1,731.0
Long-term investments	$ 810.0	$ 666.0	$ -	$ (446.4)	$ 1,029.6

8 Investment in mineral properties

	Metates (a)	Yarely (b)	Regional (b)	Escorpion (c)	Talapoosa (d)	Total
December 31, 2016	$ 63,370.8	$ 237.9	$ 320.2	$ 558.6	$ 6,641.6	$ 71,129.1
Disposal	-	-	-	-	(1,963.0)	(1,963.0)
Effect of foreign exchange on translation	182.2	-	-	-	-	182.2
Assays	-	251.7	-	-	-	251.7
Concession acquisition	46.9	212.4	19.3	-	-	278.6
Camp & supplies	206.0	385.2	3.6	-	-	594.8
Drilling	-	228.6	-	-	-	228.6
Environmental	-	5.3	-	-	-	5.3
Geological & engineering	44.4	1,113.9	-	-	-	1,158.3
Travel	5.5	139.9	2.2	6.3	-	153.9
Other	-	-	-	1.8	-	1.8
December 31, 2017	$ 63,855.8	$ 2,574.9	$ 345.3	$ 566.7	$ 4,678.6	$ 72,021.3
Impairment	-	-	-	(571.2)	-	(571.2)
Effect of foreign exchange on translation	(712.1)	-	-	-	-	(712.1)
Assays	-	141.7	-	-	-	141.7
Concession acquisition	56.3	243.1	25.5	-	-	324.9
Community, taxes, camp and supplies	423.4	227.6	21.3	-	-	672.3
Drilling	-	275.8	-	-	-	275.8
Environmental	-	2.7	-	-	-	2.7
Geological & engineering	52.8	729.2	-	-	15.2	797.2
License, dues, and fees	-	-	-	-	229.6	229.6
Travel	7.0	120.3	34.6	3.1	-	165.0
Other	-	-	-	1.4	6.5	7.9
December 31, 2018	$ 63,683.2	$ 4,315.3	$ 426.7	$ -	$ 4,929.9	$ 73,355.1

a) Metates Project

On May 9, 2014, the Company acquired the 1.5% net smelter return royalty ("Metates NSR") on the Metates project. The royalty was purchased pursuant to a right of first refusal held by the Company's subsidiary, American Gold Metates S. de R.C. de C.V. ("AGM"), for a purchase price of $9,859.5 (US$9,000.0).

On August 9, 2014, the Company entered into an agreement (the "Agreement") whereby the Company has assigned its interest in the Metates NSR to Wheaton Precious Metals Corp. (formerly known as Silver Wheaton Corp.) ("WPM") for US$9,000.0. As part of the Agreement, the Company will have the right at any time for a period of five years to repurchase two-thirds of the Metates NSR (that being a 1% net smelter returns royalty) from WPM for US$9,000.0 with WPM continuing to hold a 0.5% interest in the Metates NSR. Also as part of the transaction, Chesapeake through AGM, will hold a right of first refusal to purchase the Metates NSR in the event WPM elects to sell the Metates NSR to a third party, on the same terms and conditions as the third party's offer. The Agreement also contains customary terms and conditions for a royalty transaction. The Company has also entered into a right of first refusal agreement with WPM whereby the Company has granted WPM a right of first refusal on any future silver stream or royalty for which the Company receives and accepts an offer to purchase, on the same terms and conditions as the third party's offer.

b) Yarely

In Sinaloa State, Mexico, the Company is focused on the Yarely project located 25 kilometers northwest of the planned El Paso process site. During 2018, an exploration program including mapping, sampling, mechanized trenching and diamond drilling was undertaken on three prospects. Reconnaissance exploration was undertaken on the unexplored northeast and southwest areas in Yarely. To date, six prospects have been identified in the Yarely land package.

c) El Escorpion

On June 14, 2013, the Company concluded an agreement in respect of the El Escorpion project ("El Escorpion") with Gunpoint, whereby Gunpoint acquired a 100% interest in the El Escorpion by issuing and granting the following to Chesapeake.

- 0.5 million Gunpoint common shares and 0.5 million Gunpoint warrants exercisable at $1.50 per share for a term of five years (Expired);
- A 1.5% NSR royalty in the event Chesapeake purchases the existing 1.0% net smelter return ("NSR") royalty; and
- 1.0 million Gunpoint common shares in the event a NI 43-101 measured and indicated resource estimate of 1.0 million gold equivalent ounces is achieved on the Escorpion property

On January 28, 2011, Hunt Exploration S.A. (a subsidiary of Gunpoint) entered into an agreement with a private owner whereby Hunt would earn a 100% interest in El Escorpion by making cash payments totalling US$351.0 over five years. The payment schedule was amended on March 23, 2015 per the table below. In August 2015, the Ministry of Energy and Mines granted title to the concession.

	US$
Upon signing the agreement (paid)	16.0
On January 28, 2012 (paid)	25.0
On January 28, 2013 (paid)	30.0
On January 28, 2014 (paid)	35.0
On March 23, 2015 (paid)	25.0
On July 28, 2015 (paid)	20.0
On January 28, 2016 (see amendment below)	200.0
	351.0

On May 20, 2016, the Company amended the final US$200.0 due January 28, 2016 per the schedule below:

	US$
On or before signing the amendment (paid)	60.0
On May 31, 2016 (paid)	70.0
On September 1, 2016 (paid)	35.0
On December 15, 2016 (paid)	15.0
On December 15, 2016 (deferred by agreement)	20.0
	200.0

El Escorpion is subject to a 1.0% NSR royalty, which can be purchased for US$585.0 at any time.

On August 19, 2015, the Ministry of Energy and Mines granted title for the El Escorpion concession. In late 2016, the Constitutional Court of Guatemala temporarily suspended permits for several mineral concessions in the country including El Escorpion. The Constitutional Court is seeking a review of the stakeholder engagement process. Gunpoint has initiated a follow up consultation with the local community to support the cancellation of the suspension. The property vendor has agreed to an extension of the final payment of $20,000 to purchase El Escorpion until the exploration suspension is lifted.

For the year ended December 31, 2018, the Company recorded a $571.2 impairment of El Escorpion (2017 - $nil) due to the uncertainty of the permitting status.

d) Talapoosa

Gunpoint owns a 100% interest in the Talapoosa property which consists of 535 unpatented lode mining claims, including 509 claims owned by the Company and 26 claims subject to a lease agreement with a third party (the "Unpatented Leased Land"). These claims are administered by the Bureau of Land Management ("BLM") and the annual maintenance fees for these claims payable to the BLM are approximately US$75.0 and the annual lease payment for the Unpatented Leased land is US$35.0. In addition, there are certain payments required for the land owned subject to leases with private land owners (the "Fee Leased Land"). The current annual payments for Fee Leased Land are approximately US$42.4.

On March 31, 2015, the Company closed a transaction ("Option Agreement") with Timberline Resources Corporation ("Timberline"), granting Timberline an option (the "Option") to acquire from Gunpoint's subsidiary, American Gold US, a 100% interest in the Talapoosa gold project located in Nevada. In consideration for the Option, Timberline has paid US$300.0 and issued 2.0 million common shares to American Gold with a fair value of $1,639.6.

Under the Option Agreement, Timberline has until September 12, 2017 to exercise the Option to acquire a 100% interest in Talapoosa (the "Option Period"). Timberline can exercise the Option by making a US$10.0 million cash payment to American Gold US. For a period of five years after Timberline exercises the Option, Timberline would be required to pay American Gold US an additional US$10.0 million (payable in cash and Timberline common shares) if the daily price of gold averages US$1,600 per ounce or greater for a period of ninety consecutive trading days. Timberline plans to complete a feasibility study on Talapoosa during the option period. American Gold US retains a 1% net smelter royalty on Talapoosa which Timberline can purchase for US$3.0 million.

On October 20, 2016, the Option Agreement with Timberline was amended. The Company agreed to extend the option ("Extended Option") by approximately 18 months from September 12, 2017 to March 31, 2019 ("Amended Option Period"). In consideration for the extension, Timberline will pay an additional US$1.0 million and issue 3.5 million common shares to the Company. In addition, Timberline's repurchase option for Gunpoint's 1% net smelter return royalty ("NSR") on Talapoosa has been eliminated.

The amended terms of the Option Agreement are as follows:

- Payment of US$1.0 million and one million common shares of Timberline by March 31, 2017 (Received);
- Payment of US$2.0 million and one million common shares of Timberline by March 31, 2018;
- A final payment of US$8.0 million and 1.5 million common shares of Timberline by March 31, 2019;
- Timberline commits to undertakes cumulative project expenditures of a minimum of US$7.5 million by December 31, 2018;
- Elimination of Timberline's US$3.0 million purchase option of the 1% NSR retained by the Company upon Timberline's acquisition of Talapoosa; and
- The contingent payment based on escalating gold prices has been amended such that if gold prices average greater than or equal to US$1,600 over any 90-day period ("Trigger Event") within a 5-year period commencing on the option exercise closing date, Timberline will pay the Company an additional US$10.0 million of which a minimum of US$5.0 million will be payable within

six months of the Trigger Event, and the remaining US$5.0 million payable within twelve months of the Trigger Event, with both payments payable in cash or, at Timberline's discretion, up to 50% in shares.

On March 31, 2018, Timberline did not make the US$2.0 million option payment due to Gunpoint. Accordingly, Timberline's option to acquire the Talapoosa gold project has terminated and 100% ownership has reverted back to Gunpoint. In total, Gunpoint has received pursuant to the Option Agreement, $1,343.0 (US$1.0 million) cash and 3.0 million common shares of Timberline. As at December 31, 2018, the market value of the 3.0 million common shares of Timberline was $270.0 (2017 - $885.0).

e) **La Cecilia**

In 2010, Gunpoint acquired La Cecilia from Chesapeake Gold Corp. La Cecilia is located in Sonora State Mexico and comprises three mineral concessions totalling 794 hectares. On January 31, 2017, the Company entered into an agreement ("Option Agreement") with Riverside Resources Inc. (TSX-V: RRI) whereby Riverside has been granted an option to acquire a 100% interest in Gunpoint's La Cecilia-Margarita gold project ("La Cecilia") located in Sonora State, Mexico.

Riverside has the right to acquire a 100% interest in La Cecilia by making $250,000 in cash payments and issuing 1.0 million common shares to the Company per following schedule:

- A payment of $10.0 upon execution of the Option Agreement (Received);
- A $15.0 cash payment and issuance of 100,000 common shares of Riverside concurrent with the execution of registerable agreement in Mexico ("the Effective Date") (Received on April 24, 2017);
- A $25.0 cash payment and issuance of 200,000 common shares of Riverside on or before the first anniversary of the Effective Date (Received) ;
- A $75.0 cash payment and issuance of 300,000 common shares of Riverside on or before the second anniversary of the Effective Date (subsequently received – refer to Note 17); and
- A $125.0 cash payment and issuance of 400,000 common shares of Riverside on or before the third anniversary of Effective Date.

Riverside will be responsible for the property taxes and holding costs to maintain La Cecilia in good standing during the term of the agreement. As at December 31, 2018, the La Cecilia property is recorded at $nil (2017 - $nil) value due to a previous impairment. The consideration received from Riverside will be recognized as an income in the consolidated statement of operations.

9 Equipment

	Cost December 31, 2016 and 2017	Additions	Cost December 31, 2018
Vehicles	$ 306.9	$ -	$ 306.9
Exploration equipment	115.3	7.6	122.9
	$ 422.2	$ 7.6	$ 429.8

	Accumulated Depreciation December 31, 2016	Depreciation expense	Accumulated Depreciation December 31, 2017	Depreciation expense	Accumulated Depreciation December 31, 2018
Vehicles	$ (288.5)	$ (9.8)	(298.3)	$ (8.6)	$ (306.9)
Exploration equipment	(54.5)	(7.0)	(61.5)	(8.3)	(69.8)
	$ (343.0)	$ (16.8)	$ (359.8)	$ (16.9)	$ (376.7)

Carrying amount	December 31, 2018	December 31, 2017
Vehicles	$ -	$ 8.6
Exploration equipment	53.1	53.8
	$ 53.1	$ 62.4

10 Promissory note

As at December 31, 2018, the Company has one convertible debenture in the principal amount of $700.0 (2017 - $700.0) which is due to the President of the Company. The note is unsecured, bears interest at 5% per annum, and is due on demand. On January 1, 2018, the Company and the debenture holder mutually agreed that the conversion option has expired.

Interest accrued on the Promissory Note for the year ended December 31, 2018 was $35.0 (December 31, 2017 - $35.0).

As at December 31, 2018, the total accrued interest related to the Promissory Note was $237.7 (December 31, 2017 - $202.7) and included in the accounts payables and accrued liabilities.

11 Share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of Series 1 Class A restricted voting shares without par value, convertible and redeemable at $0.01 per share and an unlimited number of preferred shares without par value.

a) On April 13, 2018, 18,750 stock options were exercised with an exercise price of $2.15 for proceeds of $40.3.

b) As at December 31, 2018 and 2017, 375,000 common shares were held in escrow, subject to release upon approval of regulatory authorities.

12 Share-based compensation

The Company has a share purchase option plan which provides for equity participation in the Company by its directors, officers, employees, consultants and consultant companies through the acquisition of common shares pursuant to the grant of options to purchase shares. The option plan is administered by the Board of Directors. Options may be granted on such terms as the Board may determine within the limitations of the option plan and subject to the rules and policies of applicable regulatory authorities. The maximum aggregate number of shares reserved for issuance for options granted under the option plan is 8,500,000 common shares. The exercise price for options granted may not be less than the market price of the shares on the day immediately preceding the date of the grant of the option.

The Company also has a Stock Bonus Plan ("Bonus Plan"). The Bonus Plan enables bonus common shares to be issued to any full-time or part-time employee or independent contractor (whether or not a director) of the Company or any of its subsidiaries who has rendered services that contributed to the success of the Company or any of its subsidiaries. Grants of bonus common shares will be on terms that the Compensation Committee of the Board may determine, within the limitations of the Bonus Plan and subject to the rules and policies of applicable regulatory authorities. The maximum number of common shares issuable under the Bonus Plan is 200,000 common shares, representing approximately 0.52% of the current issued and outstanding common shares. In addition, in any calendar year, the number of bonus common shares issuable to insiders of the Company, also taking options into account, is limited to 0.5% of the total number of

common shares which were issued and outstanding at the end of the preceding calendar year, 10% of the issued and outstanding common shares, and no more than 5% of the issued and outstanding shares to any one person in a 12-month period.

	December 31, 2018		December 31, 2017	
	Number of shares (000's)	Weighted average exercise price	Number of shares (000's)	Weighted average exercise price
Outstanding – beginning of year	5,501	$ 2.92	5,689	$ 4.09
Granted	-	-	790	3.75
Exercised	(19)	2.15	(38)	2.15
Forfeited/Expired	(249)	2.95	(940)	10.75
Outstanding – end of year	5,233	$ 2.92	5,501	$ 2.92

The weighted average contractual life of outstanding stock options as at December 31, 2018 was 3.6 years and the weighted average fair value of stock options exercised was $1.02.

The following table discloses the number of options and vested options outstanding as at December 31, 2018:

Number of options ('000s)	Number of options vested ('000s)	Exercise price	Expiry Date
2,340	2,340	$ 3.30	29-Aug-24
2,103	1,061	2.15	21-Mar-21
790	198	3.75	27-Sept-22
5,233	3,599	2.92	

During the year ended December 31, 2018, the Company recognized $1,407.5(2017 - $1,672.7) as share-based compensation expense, of which $1,334.9(2017 - $1,696.3) relates to the Company and $72.6 (2017 – $23.6 recovery) relates to Gunpoint, respectively.

The weighted average contractual life of outstanding stock options as at December 31, 2017 was 5.0 years. The following table discloses the number of options and vested options outstanding as at December 31, 2017:

Number of options ('000s)	Number of options vested ('000s)	Exercise price	Expiry Date
2,514	1,860	$ 3.30	29-Aug-24
2,197	521	2.15	21-Mar-21
790	-	3.75	27-Sept-22
5,501	2,381	2.92	

13 Related party transactions

The Company's related parties include its subsidiaries and key management personnel. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

Short-term employee benefits include salaries payable within twelve months of the statement of financial position date and other annual employee benefits.

The Company incurred the following expenses with related parties during the years ended December 31, 2018 and 2017:

	2018	2017
Consulting	$ 140.8	$ 180.4
Legal	20.3	31.8
Management fees	250.0	250.0
Rental	24.0	24.0
Stock based compensation	1,027.5	1,220.6

During the years ended December 31, 2018 and 2017, legal fees were paid or accrued to a legal firm of which one of the partners is the Corporate Secretary of the Company. Management and rental fees were paid or accrued to the President of the Company or companies controlled by the President of the Company. Consulting fees were paid or accrued to a director of the Company.

As at December 31, 2018 the Company had amounts payable of $889.1 (2017 - $616.7) and $45.0 (2017 - $nil) of short-term advance to related parties, of which $908.1 (2017 - $575.4) were due to companies controlled by the President of the Company. These amounts are unsecured and non-interest bearing, due on demand and are included in accounts payable and accrued liabilities.

14 Capital management

The capital of the Company consists of items included in shareholder's equity. The Company's objectives for capital management are to safeguard its ability to support the Company's normal operating requirement on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans.

The capital of the Company consists of items included in shareholders' equity (excluding NCI), net of cash and cash equivalents as follows:

	December 31, 2018	December 31, 2017
Total equity for owners	$ 81,403.2	$ 84,392.4
Less: cash and cash equivalents	(15,627.6)	(18,914.2)
	65,775.6	65,478.2

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at December 31, 2018, the Company expects its capital resources will support its normal operating requirements, planned development and exploration of its mineral properties for the next twelve months. There are no externally imposed capital requirements to which the Company has not complied.

15 Segment disclosures

The Company operates in one operating segment (Note 1) in three countries. Details of the investments in mineral properties are disclosed in Note 8. The Company's assets by country are:

December 31, 2018	Canada	Mexico	USA	Total
Cash and cash equivalents	$ 15,580.2	$ 5.4	$ 42.0	$ 15,627.6
Other receivables and prepaid expenses	185.3	255.1	-	440.4
Marketable securities	1,310.7	-	-	1,310.7
	17,076.2	260.5	42.0	17,378.7
Long-term investments	210.3	-	270.0	480.3
Investment in mineral properties	-	68,425.2	4,929.9	73,355.1
Reclamation bonds	71.7	-	177.5	249.2
Equipment	-	53.1	-	53.1
Total assets	$ 17,358.2	$ 68,738.8	$ 5,419.4	$ 91,516.4
Segment loss in 2018	$ (2,501.1)	$ (304.2)	$ (1,206.5)	$ (4,011.8)

December 31, 2017	Canada	Mexico	USA	Total
Cash and cash equivalents	$ 18,863.3	$ 7.3	$ 43.6	$ 18,914.2
Other receivables and prepaid expenses	88.9	227.3	-	316.2
Marketable securities	1,731.0	-	-	1,731.0
	20,683.2	234.6	43.6	20,961.4
Long-term investments	144.6	-	885.0	1,029.6
Investment in mineral properties	-	67,342.7	4,678.6	72,021.3
Reclamation bonds	27.9	-	177.9	205.8
Equipment	-	62.4	-	62.4
Total assets	$ 20,855.7	$ 67,639.7	$ 5,785.1	$ 94,280.5
Segment (loss) income in 2017	$ (1,892.1)	$ (310.5)	$ 34.2	$ (2,168.4)

16 Income taxes

The income taxes shown in the consolidated statements of earnings differ from the amounts obtained by applying statutory rates to the earnings before provision for income taxes due to the following:

	Year ended December 31,	
	2018	**2017**
Loss before income taxes	$ (3,820.6)	$ (2,852.5)
Income tax recovery at statutory rates (2018 – 27%; 2017 – 26%)	1,032.2	741.6
Difference in foreign tax rates	(41.5)	(1.5)
Non-deductible expenses	(966.0)	(398.5)
Change in unrecognized deferred income tax asset	223.4	575.9
Tax losses expired	-	(568.4)
Foreign exchange and other	(439.2)	335.0
Deferred income tax (expense) recovery	$ (191.1)	$ 684.1

The components of deferred income taxes are as follows:

	2018	2017
Deferred income tax assets		
Operating losses carried forward	$ 6,177.7	$ 4,773.8
Other	-	38.3
	$ 6,177.7	$ 4,812.1
Deferred tax liabilities		
Investment in mineral properties	(11,532.6)	(10,384.5)
Other	(675.2)	(266.5)
	$ (12,207.8)	$ (10,651.0)
Net deferred income tax liability	$ (6,030.1)	$ (5,838.9)

Unrecognized deductible temporary differences, unused tax losses and unused tax credits are attributed to the following:

	2018	2017
Operating losses carried forward	$ 17,679.8	$ 18,037.3
Equipment	141.9	182.2
Investment in mineral properties	1,011.8	414.7
Capital losses carried forward	37.9	181.8
Marketable securities and long-term investment	3,645.9	2,617.7
Other	252.8	176.2
	22,770.1	21,609.9

17 Subsequent event

On January 31, 2019, the Company received $75.0 and was issued 300,000 common shares of Riverside as part of the option agreement on Le Cecilia.