Fortune Bay Corp.

Consolidated Financial Statements
December 31, 2018
(expressed in Canadian dollars)

March 7, 2019

Management's Responsibility for Financial Reporting

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

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

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

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

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

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

Independent auditor's report

To the Shareholders of Fortune Bay Corp.

Our opinion

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

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Fortune Bay's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP
14 King Street, Suite 320, Saint John, New Brunswick, Canada E2L 1G2
T: +1 506 632 1810, F: +1 506 632 8997

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 consolidated 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.
- 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.

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 auditor's report is Gordon Ashe.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Saint John, New Brunswick
March 7, 2019

Fortune Bay Corp.

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 $
Assets		
Current assets		
Cash	107,911	53,043
Accounts receivable (note 5)	12,613	2,407
Prepaid expenses and deposits	18,630	29,284
	139,154	84,734
Reclamation deposit	38,083	37,969
Property and equipment (note 6)	162,139	170,799
Exploration and evaluation assets (note 7)	15,129,451	14,854,532
	15,468,827	15,148,034
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	204,246	267,714
Other current liabilities (note 7)	7,500	–
Loan payable (note 9)	–	75,426
	211,746	343,140
Deferred income tax liability (note 11)	213,460	–
	425,206	343,140
Equity		
Shareholders' Equity	15,043,621	14,804,894
	15,468,827	15,148,034

Nature of operations and going concern (note 1)

Commitments and contingencies (note 17)

Subsequent event (note 18)

Approved on behalf of the Board of Directors

(signed) *"Michael Gross"*, Director

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

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

Fortune Bay Corp.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 $
Operating expenses		
Office, travel and promotion	65,511	90,530
Depreciation	1,218	2,826
Professional fees	38,606	53,741
Salaries and benefits	301,955	322,284
Management services	12,000	12,000
Securities and regulatory	42,590	39,614
Share-based compensation	87,771	133,302
Foreign exchange loss	2,609	423
	552,260	654,720
Other income (expenses)		
Interest and other	218	225
Write-down of property and equipment	–	(6,215)
Gain on sale of property and equipment (note 6)	23,309	–
	23,527	(5,990)
Net loss and comprehensive loss before income tax	(528,733)	(660,710)
Deferred income tax expense (note 11)	(213,460)	–
Net loss and comprehensive loss for the year	(742,193)	(660,710)
Loss per share – basic and diluted	(0.04)	(0.04)
Weighted-average number of common shares outstanding (note 10)	20,686,931	18,578,200

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

Fortune Bay Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	Number of common shares	Common shares $	Warrants $	Contributed surplus $	Retained earnings (deficit) $	Total shareholders' equity $
Balance – January 1, 2017	18,578,200	3,468,515	5,763	91,626	11,766,398	15,332,302
Net loss for the period	–	–	–	–	(660,710)	(660,710)
Comprehensive loss for the period	–	–	–	–	(660,710)	(660,710)
Expiry of warrants (note 10)	–	–	(5,763)	5,763	–	–
Share-based compensation expense	–	–	–	133,302	–	133,302
Balance – December 31, 2017	18,578,200	3,468,515	–	230,691	11,105,688	14,804,894
Balance – January 1, 2018	18,578,200	3,468,515	–	230,691	11,105,688	14,804,894
Net loss for the period	–	–	–	–	(742,193)	(742,193)
Comprehensive loss for the period	–	–	–	–	(742,193)	(742,193)
Units issued pursuant to private placement (note 10)	2,287,500	673,302	241,698	–	–	915,000
Shares and warrants issued as finder's fee (note 10)	171,563	66,910	29,166	–	–	96,076
Unit issuance costs (note 10)	–	(82,989)	(34,938)	–	–	(117,927)
Share-based compensation expense	–	–	–	87,771	–	87,771
Balance – December 31, 2018	21,037,263	4,125,738	235,926	318,462	10,363,495	15,043,621

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

Fortune Bay Corp.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 $
Operating activities		
Net loss for the years	(742,193)	(660,710)
Non-cash items:		
Depreciation	1,218	2,826
Gain on sale of property and equipment	(23,309)	–
Write-down of property and equipment	–	6,215
Share-based compensation	87,771	133,302
Deferred income tax expense (note 11)	213,460	–
Net change in non-cash operating working capital (note 12)	(55,172)	190,709
	(518,225)	(327,658)
Investing activities		
Additions to exploration and evaluation assets	(274,630)	(185,701)
Proceeds from sale of property and equipment	30,000	–
	(244,630)	(185,701)
Financing activities		
Loan received from/(repaid to) related party (note 9)	(75,426)	75,000
Gross proceeds received upon completion of private placement (note 10)	915,000	–
Unit issuance costs associated with private placement (note 10)	(21,851)	–
	817,723	75,000
Net change in cash during the years	54,868	(438,359)
Cash – Beginning of year	53,043	491,402
Cash – End of year	107,911	53,043

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

(expressed in Canadian dollars)

1 Nature of operations and going concern

Nature of operations

Fortune Bay Corp. (the "Company" or "Fortune Bay") 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 on July 4, 2016 under the symbol FOR.

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

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

Going concern

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the year ended December 31, 2018, the Company incurred a loss before income tax of $0.5 million (year ended December 31, 2017 loss before income tax of - $0.7 million). The Company has no income or cash inflows from operations. In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing, so that the Company can continue to operate as a going concern. Nevertheless, there can be no assurance that these initiatives will be successful or sufficient.

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

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies

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

a) Basis of presentation

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

b) Statement of compliance and basis of consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada as set out in the Chartered Professional Accountants of Canada Handbook – Accounting – Part I which incorporates IFRS as issued by the International Accounting Standards Board. The Board of Directors of Fortune Bay approved these consolidated financial statements on March 7, 2019.

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

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

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

c) Foreign currency translation

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

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

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies (continued)

d) Employee benefits

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

e) Site restoration provision

Exploration activities may give rise to obligations for site restoration. This work can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation, including compliance with and monitoring of environmental regulations; security and other site-related costs required to perform the restoration work. The extent of work required and the associated costs are dependent on the requirement of relevant authorities and environmental policies.

Provisions for the cost of site restoration are recognized at the time a new legal or constructive obligation is determined. The carrying amount of the provision at December 31, 2018 relates primarily to disposal of waste materials, completion of security and safety measures and other ongoing care and maintenance required to be in compliance with relevant authorities. The expected costs are estimated based on the cost of external contractors performing the work or the cost of performing the work internally depending on management's intention.

When provisions for site restoration are initially recognized, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the resource property. The capitalized cost is recognized in exploration and evaluation assets.

f) Income taxes

Current income taxes

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

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

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies (continued)

f) Income taxes (continued)

Deferred income taxes

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

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

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

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

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

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

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

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

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

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies (continued)

g) Long-lived assets

Property and equipment

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

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

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

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

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

Exploration and evaluation expenditures

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

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies (continued)

g) Long-lived assets (continued)

Exploration and evaluation expenditures (continued)

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

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

Mineral rights

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

h) Impairment of long-lived assets

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

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

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

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies (continued)

h) Impairment of long-lived assets (continued)

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

During the years ended December 31, 2018 and 2017, there were no indicators of impairment or impairment reversals on the Company's long-lived assets.

i) Cash

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

j) Leases

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

k) Financial instruments

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

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

Asset / Liability	Classification	Subsequent measurement
Cash	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets

Subsequent to initial recognition, loans and receivables are measured at amortized cost.

Impairment of financial assets at amortized cost

The Company recognizes an allowance using the Expected Credit Loss ("ECL") model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all accounts receivable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss and comprehensive loss.

Financial liabilities

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

Offsetting financial instruments

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

l) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at December 31, 2018 and 2017.

(expressed in Canadian dollars)

2 Basis of presentation and summary of significant accounting policies (continued)

m) Loss per share

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

n) Share-based payments

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

3 Significant accounting judgments and key sources of estimation uncertainty

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

(expressed in Canadian dollars)

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

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

a) Recoverability of exploration and evaluation costs

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

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

b) Income taxes

The Company's accounting policy for income taxes requires management's judgment in assessing the extent to which deferred tax assets can be recognized. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the ability of the Company to sell an asset or generate sufficient future taxable profits before the expiry of the related deferred tax assets.

At each balance sheet date, management assesses the recovery of the deferred tax assets. At December 31, 2018, $413,315 (December 31, 2017 - $633,481) deferred tax assets are recognized related to loss carry-forwards in Mexico. Management expects the deferred tax liabilities in Mexico to reverse before these Mexican deferred tax assets expire. Management's judgments are subject to risk and uncertainty, hence there is a possibility that changes in conditions, such as changes in management's future plans or changes in the gold markets, may change expectations, which may impact the amount of deferred tax assets to be recognized. If such changes in expectations occur, some or all of the carrying amount of recognized deferred tax assets or deferred tax liabilities may require adjustments, resulting in a corresponding credit or charge to the statement of loss and comprehensive loss.

(expressed in Canadian dollars)

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

c) Contingencies

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

4 New accounting standards

Adopted

IFRS 9, Financial Instruments

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

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

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

Impact of adoption of IFRS 9

Financial liabilities that are considered modified must be accounted for by discounting the new cash flows at the original effective interest rate, resulting in an immediate impact to the Company's net loss and comprehensive loss. Management identified no financial liabilities that were modified prior to January 1, 2018.

(expressed in Canadian dollars)

5 New accounting standards (continued)

Adopted (continued)

Impact of adoption of IFRS 9 (continued)

IFRS 9 requires the Company to use the ECL impairment model in calculating impairment provisions, which differs from the incurred credit loss model under IAS 39. The ECL model is a probability weighted estimate of credit losses. Management has determined that there is no impact on the consolidated financial statements due to this change in impairment models.

The Company determines the measurement of financial assets and liabilities at initial recognition and classifies them at amortized cost. The Company completed an assessment of its financial assets and liabilities as at January 1, 2018 and concluded that there were no changes in measurement due to the transition to IFRS 9.

Cash and accounts receivable that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized costs under IFRS 9. There has been no impact on classification of the Company's financial liabilities.

Accounting policies associated with IFRS 9

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

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

Asset / liability model	Classification	Measurement
Cash	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Impairment of financial assets at amortized cost

The Company recognizes an allowance using the ECL model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all accounts receivable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss and comprehensive loss.

(expressed in Canadian dollars)

4 New accounting standards (continued)

Issued but not yet effective

IFRS 16, *Leases*

IFRS 16, Leases ("IFRS 16"), a new standard on lease accounting, was issued on January 13, 2016 and replaces the current guidance in IAS 17. The new standard results in substantially all lessee leases being recorded on the consolidated statements of financial position. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new standard on the Company's consolidated financial statement measurements and disclosures. The Company has one operating lease for office space which the Company considers to be a short term lease at the commencement date and therefore expects no impact to the consolidated financial statements when the standard is adopted. The Company continues to evaluate this standard and will monitor all leases for appropriate recognition in future periods.

5 Accounts receivable

	2018 $	2017 $
Due from related parties	–	135
Sales tax and other	12,613	2,272
	12,613	2,407

(expressed in Canadian dollars)

6 Property and equipment

	Land and building $	Computer and office equipment $	Field equipment $	Total $
Cost				
As at January 1, 2017	164,233	103,390	91,543	359,166
Write-down of property and equipment	–	(64,791)	–	(64,791)
As at December 31, 2017	164,233	38,599	91,543	294,375
Sale of property and equipment	(6,691)	–	–	(6,691)
As at December 31, 2018	157,542	38,599	91,543	287,684
Accumulated depreciation				
As at January 1, 2017	–	90,289	87,967	178,256
Depreciation	–	2,826	1,070	3,896
Write-down of property and equipment	–	(58,576)	–	(58,576)
As at December 31, 2017	–	34,539	89,037	123,576
Depreciation	–	1,218	751	1,969
As at December 31, 2018	–	35,757	89,788	125,545
Carrying amounts				
Balance as at December 31, 2017	164,233	4,060	2,506	170,799
Balance as at December 31, 2018	157,542	2,842	1,755	162,139

The Company sold two buildings with a cost base of $6,691 during the year ended December 31, 2018 for gross proceeds of $30,000.

(expressed in Canadian dollars)

7 Exploration and evaluation assets

	Goldfields $	Ixhuatán $	Total $
As at January 1, 2017	12,242,673	2,424,286	14,666,959
Additions	70,693	116,880	187,573
As at December 31, 2017	12,313,366	2,541,166	14,854,532
Additions	157,551	117,368	274,919
As at December 31, 2018	12,470,917	2,658,534	15,129,451

Goldfields

As at December 31, 2018, 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. During the year ended December 31, 2018, the Company incurred site restoration costs of $82,826 and recorded a remaining provision for site restoration costs of $7,500.

Ixhuatán

As at December 31, 2018, 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 Ampliacion 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 Ampliacion 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 Ampliacion Pueblo Viejo 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.

(expressed in Canadian dollars)

8 Accounts payable and accrued liabilities

	2018 $	2017 $
Trade accounts payable and accrued liabilities	105,850	130,697
Amounts payable to related parties, including director fees	98,396	137,017
	204,246	267,714

9 Loan payable

During the year ended December 31, 2017, the Company signed a loan agreement with a company owned by a director of Fortune Bay. The loan was for up to $150,000, was due on demand and had a cumulative interest rate of 1% per month. The loan was paid in full, including interest, during the year ended December 31, 2018. As at December 31, 2018, the balance of the loan is $nil. As at December 31, 2017, the Company had an outstanding balance due of $75,000 plus accrued interest payable of $426.

10 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, 2017 and December 31, 2017	18,578,200	3,468,515
Shares issued pursuant to private placement	2,287,500	673,302
Shares issued as finder’s fee	171,563	66,910
Less: Share issuance costs	–	(82,989)
Outstanding, December 31, 2018	21,037,263	4,125,738

(expressed in Canadian dollars)

10 Share capital (continued)

a) Common shares (continued)

On February 22, 2018, the Company completed a non-brokered private placement for aggregate gross proceeds of $915,000 (the “Offering”). The Company issued 2,287,500 units at an issue price of $0.40 per unit, with each unit comprised of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of $0.60 per share for a period of three years. Directors of the Company subscribed for an aggregate of 512,500 units.

The value allocated to the common shares issued was $673,302 and the value allocated to the common share purchase warrants was $241,698. Total costs associated with the private placement, consisting of professional and regulatory fees, as well as the finder’s fees, were $117,927. The Company allocated $82,989 to the costs of issuing the common shares and $34,938 to the costs of issuing the warrants. All securities issued pursuant to the financing were subject to a statutory four-month holding period in accordance with Canadian securities legislation.

The Offering was led by Numus Capital Corp., a private company controlled by a director and officer of the Company. In connection with the Offering, the Company paid a finder’s fee comprised of common shares equal to 7.5% of the gross proceeds received by the Company from the sale of the units plus warrants entitling Numus Capital Corp. to purchase the number of shares in the Company that is equal to 7.5% of the units sold by Numus Capital Corp. as part of the Offering. This resulted in the issuance of 171,563 common shares of the Company and 171,563 warrants of the Company to Numus Capital Corp. The shares issued to Numus Capital Corp. were valued at $66,910 and the warrants were valued at $29,166.

b) Warrants

	Number of warrants \#	Amount2017 $
Outstanding, January 1, 2017 and December 31, 2017	–	–
Warrants issued pursuant to the Offering	2,287,500	241,698
Warrants issued as finder’s fee	171,563	29,166
Less: Warrant issue costs	–	(34,938)
Outstanding, December 31, 2018	2,459,063	235,926

Pursuant to the Offering, 2,287,500 warrants were issued, valued at $241,698. These warrants are exercisable at $0.60 and expire on February 22, 2021. 171,563 warrants were issued as a finder’s fee pursuant to the Offering, valued at $29,166. These warrants are exercisable at $0.40 and expire on February 22, 2021.

(expressed in Canadian dollars)

10 Share capital (continued)

b) Warrants (continued)

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 year ended December 31, 2018 are as follows:

Risk-free interest rate	1.94%
Expected life	3.0 years
Expected volatility	79%
Expected dividend per share	nil
Weighted-average fair value per warrant	$0.14

c) Share-based compensation plan

The Company has adopted a share-based compensation plan, providing the Board of Directors with the discretion to issue an equivalent number of 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 the grant.

The estimated fair value 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.

The following table reconciles the stock option activity during the years ended December 31, 2018 and 2017:

	Number of options #	Weighted-average exercise price $
Balance, January 1, 2017 and December 31, 2017	1,000,000	0.40
Granted	175,000	0.45
Balance, December 31, 2018	1,175,000	0.41

The fair value of the 175,000 stock options issued during the year ended December 31, 2018 has been estimated at the grant due date using the Black-Scholes option pricing model. The weighted-average assumptions used in the pricing model are as follows:

Risk-free interest rate	1.94%
Expected life	4.5 years
Expected volatility	100%
Expected dividend per share	nil
Weighted-average fair value per warrant	$0.33

(expressed in Canadian dollars)

10 Share capital (continued)

c) Share-based compensation plan (continued)

The following table summarizes information relating to outstanding and exercisable stock options as at December 31, 2018:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price $
July 11, 2021	2.5	1,000,000	666,666	0.40
March 5, 2023	4.1	175,000	–	0.45

For the year ended December 31, 2018, the estimated value of options earned and recorded in the consolidated statements of loss and comprehensive loss was $87,771 (year ended December 31, 2017 - $133,302). As at December 31, 2018, 928,726 options were available for granting under the plan.

11 Income taxes

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

	2018 $	2017 $
Loss before income taxes	528,733	660,710
Statutory rate	31%	31%
Tax recovery at statutory rate	163,907	204,820
Losses and deductible temporary differences not recognized in current and prior years	76,430	(162,275)
Other	(26,877)	(42,545)
Income tax expense	213,460	–

(expressed in Canadian dollars)

11 Income taxes (continued)

The tax effects of temporary differences that would give rise to significant portion of the deferred tax assets and liabilities at December 31, 2018 and 2017 are as follows:

	2018 $	2017 $
Deferred tax assets		
Net operating losses carried forward	413,315	633,481
Deferred tax liabilities		
Exploration and development	626,775	633,481
Net deferred tax liability	213,460	–

At December 31, 2018, the Company has unused non-capital losses of $6.5 million (December 31, 2017 - $10.4 million) available for carryforward purposes, which expire from 2021 to 2038. The Company also has non-capital loss carryforwards of $1.7 million (December 31, 2017 - $1.6 million) that have no expiration date, however, the use of these carryforwards is restricted to 30% of annual taxable income. The Company has capital loss carryforwards of $5.7 million (December 31, 2017 - $5.7 million), which may be carried forward indefinitely for use against capital gains. Deferred tax assets have been recognized in respect of non-capital losses and deductible temporary differences to the extent of taxable temporary differences that reverse within the carryforward period of these attributes. The Company has unrecognized deferred tax assets of $17.9 million (December 31, 2017 - $20.8 million) in respect of loss carryforwards, deductible temporary differences and unused tax credits.

At December 31, 2018, the Company recognized a net deferred tax liability of $213,460 (December 31, 2017 - $nil) related to the difference between the book value and the tax value of the Company's exploration and evaluation assets in Mexico.

12 Supplemental cash flow information

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

	2018 $	2017 $
Accounts receivable	(10,206)	110,045
Prepaid expenses and deposits	10,540	5,214
Accounts payable and accrued liabilities and other current liabilities	(55,506)	75,450
	(55,172)	190,709

(expressed in Canadian dollars)

12 Supplemental cash flow information (continued)

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

	2018 $	2017 $
Capitalized depreciation	751	1,070

13 Related party transactions

Amounts payable to officers, directors and companies owned thereby were $98,396 at December 31, 2018 (December 31, 2017 - $212,443, including a loan payable of $75,426 to a company owned by a director of Fortune Bay). The related party loan was paid in full, including interest, during the current year. During the year ended December 31, 2018, the Company incurred costs for controller services from a related company controlled by a director and officer of the Company, Numus Financial Inc. ("Numus"), in the amount of $12,000 and incurred rent and office costs in the amount of $28,744 and recognized other cost reimbursements from Numus of $12,632. During the year-ended December 31, 2017, the Company incurred costs for controller services from Numus of $12,000 and incurred net rent and office costs in the amount of $45,865 and recognized other cost reimbursements from Numus of $51,073. As at December 31, 2018, the net amount payable by the Company to Numus was $32,417 (December 31, 2017 - $1,410).

During the year ended December 31, 2018, the Company completed a private placement financing of 2,287,500 units for aggregate gross proceeds of $915,000 (note 10). Directors of the Company subscribed for 512,500 units pursuant to the financing. In addition, a finder's fee was paid to Numus Capital Corp., a company controlled by an officer and director of Fortune Bay. The finder's fee consisted of 171,563 common shares valued at $66,910 and 171,563 common share purchase warrants valued at $29,166 that are exercisable into 171,563 common shares of the Company at an exercise price of $0.40 per share for a period of three years.

Subsequent to year end, the Company entered into a loan agreement with a related party for a loan of up to $250,000 (note 18).

14 Compensation of key management

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

	2018 $	2017 $
Salaries and accrued compensation, directors' fees and other benefits	262,178	246,607
Share-based compensation	77,735	119,970
	339,913	366,577

(expressed in Canadian dollars)

15 Fair value financial instruments and risk management

a) Capital management

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

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

	2018 $	2017 $
Equity	15,043,621	14,804,894
Less: Cash	(107,911)	(53,043)
	14,935,710	14,751,851

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018 or 2017.

b) Fair values of financial instruments

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

c) Financial risk management objectives

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

d) Market risk

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

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

(expressed in Canadian dollars)

15 Fair value financial instruments and risk management (continued)

e) Credit risk

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

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

At each reporting date, the Company assesses whether there has been an impairment of financial assets. The Company has not recorded an impairment on any financial assets during the years ended December 31, 2018 and 2017.

f) Liquidity risk

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

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

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

	Within 1 year $	2-3 years $	4-5 years $	Over 5 years $	Total $
Accounts payable and accrued liabilities	204,246	–	–	–	204,246
Other current liabilities	7,500	–	–	–	7,500
	211,746	–	–	–	211,746

(expressed in Canadian dollars)

15 Fair value financial instruments and risk management (continued)

g) Currency risk

The Company is exposed to currency risk on its United States dollar and Mexican peso cash, accounts receivable and accounts payable and accrued liabilities, in addition to some of its operating costs. For the year ended December 31, 2018, 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.

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

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

No financial assets or financial liabilities were measured at fair value as at December 31, 2018 or 2017.

16 Segment information

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

	Canada $	Mexico $	Total $
As at December 31, 2018			
Property and equipment	162,139	–	162,139
Exploration and evaluation assets	12,470,917	2,658,534	15,129,451
	12,633,056	2,658,534	15,291,590
As at December 31, 2017			
Property and equipment	170,799	–	170,799
Evaluation and exploration assets	12,313,366	2,541,166	14,854,532
	12,484,165	2,541,166	15,025,331

(expressed in Canadian dollars)

17 Commitments and contingencies

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

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

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

As at December 31, 2018, the Company has a management services agreement with Numus, a related party, for the provision of controller services, rent and other office costs at a fee of $32,400 per year, continuing until both parties mutually agree to terminate or either party provides at least six months notice.

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

18 Subsequent event

Subsequent to year end, 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 is for up to $250,000, 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. No amounts have been drawn on the loan to date. The loan will be used to fund exploration and evaluation asset expenditures and operating costs.