

Bluestone **RESOURCES INC.**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2019 and 2018

(Unaudited)

Bluestone Resources Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in United States dollars - Unaudited)

	Notes	June 30, 2019	December 31, 2018
Current assets			
Cash and cash equivalents		\$12,339,144	\$6,672,318
Accounts receivable		49,041	97,506
Equity securities		71,081	—
Prepaid expenses		531,526	174,075
Inventory		89,708	130,811
		13,080,500	7,074,710
Non-current assets			
Restricted cash		1,759,320	1,751,357
Property, plant and equipment	3	5,360,973	5,302,876
Exploration and evaluation assets		30,126,433	30,126,433
Total assets		\$50,327,226	\$44,255,376
Current liabilities			
Trade and other payables	4	\$1,441,212	\$2,647,630
		1,441,212	2,647,630
Non-current liabilities			
Lease liabilities	4	89,696	—
Rehabilitation provisions	5	7,226,357	7,127,797
Deferred income tax liabilities		1,749,863	1,996,412
Total liabilities		10,507,128	11,771,839
Shareholders' equity			
Share capital	6	96,013,208	81,396,001
Reserves		12,294,061	10,404,099
Accumulated other comprehensive income		4,494,865	4,234,556
Deficit		(72,982,036)	(63,551,119)
Total shareholders' equity		39,820,098	32,483,537
Total liabilities and shareholders' equity		\$50,327,226	\$44,255,376

Nature of operations and going concern (note 1)

Approved on August 20, 2019 on behalf of the Board of Directors:

"Zara Boldt"

Zara Boldt, Director

"Darren Klinck"

Darren Klinck, Director

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

Bluestone Resources Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States dollars - Unaudited)

	Notes	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Expenses					
Accounting and legal		\$36,505	\$74,879	\$163,567	\$213,945
Advertising and promotion		242,325	68,382	638,292	159,068
Corporate listing and filing fees		12,446	4,313	38,888	18,962
Exploration and evaluation expenses	7	2,865,361	5,077,217	6,352,537	9,895,468
Office and administration		172,451	233,155	349,759	532,478
Share-based compensation	6	232,397	448,976	594,143	916,969
Wages and consulting fees		696,741	500,408	1,409,220	1,070,349
		(4,258,226)	(6,407,330)	(9,546,406)	(12,807,239)
Interest income		98,175	96,695	150,160	215,815
Finance expenses		(29,420)	—	(61,999)	—
Accretion expense	5	(49,449)	(51,404)	(98,560)	(99,500)
Other income		93,003	13,057	93,003	23,980
Foreign exchange gain (loss)		13,241	262,052	(204,526)	816,503
Loss before income tax		(4,132,676)	(6,086,930)	(9,668,328)	(11,850,441)
Income tax (expense) recovery		(122,747)	(9,431)	237,411	(11,368)
Net loss		(4,255,423)	(6,096,361)	(9,430,917)	(11,861,809)
Other comprehensive (loss) income items that will not be reclassified to net loss:					
Loss on equity securities		(5,233)	—	(5,233)	—
Translation adjustment		186,650	(350,582)	265,542	(1,072,533)
Comprehensive loss		(\$4,074,006)	(\$6,446,943)	(\$9,170,608)	(\$12,934,342)
Weighted average number of common shares outstanding – basic and diluted		81,849,132	63,840,560	74,087,333	63,834,483
Basic and diluted loss per common share		(\$0.05)	(\$0.10)	(\$0.13)	(\$0.19)

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

Bluestone Resources Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed in United States dollars - Unaudited)

	Notes	Share capital		Reserves	Accumulated other comprehensive income	Deficit	Total shareholders' equity
		Shares	Amount				
Balance, January 1, 2018		63,815,560	\$81,193,312	\$9,154,063	\$5,533,092	(\$37,955,735)	\$57,924,732
Share-based compensation	6	—	97,840	819,129	—	—	916,969
Exercise of warrants	6	25,000	9,719	(2,774)	—	—	6,945
Loss for the period		—	—	—	(1,072,533)	(11,861,809)	(12,934,342)
Balance, June 30, 2018		63,840,560	\$81,300,871	\$9,970,418	\$4,460,559	(\$49,817,544)	\$45,914,304
Balance, January 1, 2019		63,840,560	\$81,396,001	\$10,404,099	\$4,234,556	(\$63,551,119)	\$32,483,537
Private placement	6	17,941,321	14,480,290	1,402,473	—	—	15,882,763
Share-based compensation	6	—	93,754	500,389	—	—	594,143
Exercise of warrants	6	116,242	43,163	(12,900)	—	—	30,263
Income (loss) for the period		—	—	—	260,309	(9,430,917)	(9,170,608)
Balance, June 30, 2019		81,898,123	\$96,013,208	\$12,294,061	\$4,494,865	(\$72,982,036)	\$39,820,098

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

Bluestone Resources Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in United States dollars - Unaudited)

	Notes	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows used in operating activities			
Net loss for the period		(\$9,430,917)	(\$11,861,809)
Accretion expense	5	98,560	99,500
Depreciation	3	213,584	141,805
Share-based compensation	6	594,143	916,969
Change in restoration provision estimate	5	—	400,785
Interest income		(142,515)	(202,316)
Other income		(93,003)	(36,345)
Income tax (recovery) expense		(238,130)	11,368
Non-cash foreign exchange loss (gain)		93,005	(892,764)
Changes in non-cash working capital:			
Accounts receivable		51,346	132,251
Prepaid expenses		(343,807)	(15,853)
Inventory		41,102	9,383
Trade and other payables		(1,095,118)	247,070
Cash (used) in operating activities		(10,251,750)	(11,049,956)
Cash flows from investing activities			
Purchase of plant and equipment		(231,740)	(1,641,086)
Proceeds from sale of exploration and evaluation asset		18,432	—
Proceeds from disposal of plant and equipment		—	22,709
Increase in restricted cash		—	(77,815)
Interest received		142,515	202,316
Cash (used) in investing activities		(70,793)	(1,493,876)
Cash flows from financing activities			
Proceeds from private placements	6	16,872,293	—
Private placement fees	6	(989,530)	—
Lease principal repayments		(29,490)	—
Proceeds from exercise of warrants	6	30,263	6,945
Cash generated by financing activities		15,883,536	6,945
Effects of foreign exchange rate changes on cash and cash equivalents		105,833	(169,594)
Increase (decrease) in cash and cash equivalents		5,666,826	(12,706,481)
Cash and cash equivalents, beginning of the period		6,672,318	30,221,102
Cash and cash equivalents, end of the period		\$12,339,144	\$17,514,621

Supplemental cash flow information (note 11)

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

1. Nature of Operations and Going Concern

a) Nature of operations

Bluestone Resources Inc. ("Bluestone" or the "Company"), incorporated on November 7, 2000 under the Business Corporations Act (Alberta) and continued into British Columbia on June 13, 2005, is a resource company focused on the exploration and development of its 100% owned Cerro Blanco Gold project ("Cerro Blanco") and Mita Geothermal project ("Mita Geothermal"), both located in Guatemala. The Company's head and registered office is located at Suite 1020, 800 West Pender Street, Vancouver, BC, V6C 2V6. The Company is listed on the TSX Venture Exchange, trading under the symbol 'BSR', and on the OTCQB, trading under the symbol 'BBSRF'.

b) Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operations for at least the next twelve months and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has a history of losses with no revenues and has working capital of \$11,639,288 as at June 30, 2019. Within the next twelve months, Bluestone's objectives center on the advancement of Cerro Blanco. There can be no assurances that the Company will be able to obtain additional financing on satisfactory terms and/or achieve profitability or positive cash flows from its future operations. Management estimates that the Company has sufficient working capital to maintain its planned operations and its activities for the foreseeable future.

These condensed interim consolidated financial statements do not include any adjustments relating to the recorded amounts and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. Significant Accounting Policies, Estimates and Judgments

a) Basis of presentation, principles of consolidation and statement of compliance

These condensed interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2018.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim financial reporting*. The comparative information has also been prepared on this basis.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 20, 2019.

Certain comparative balances have been reclassified in order to conform to current period presentation.

For all periods presented, these condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. A wholly owned subsidiary is an entity in which the Company has 100% control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise to obtain benefits from its activities.

b) Change in accounting policy – IFRS 16, *Leases* ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, and therefore, the comparative information has not been restated and continues to be reported under IAS 17, *Leases* and IFRIC 4, *Determining whether an arrangement contains a lease*. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize a right-of-use ("ROU") asset and a lease obligation at the lease commencement date.

Accounting policy applicable from January 1, 2019

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights;
- The Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the earlier of the end of the useful life or the lease term using either the straight-line or units-of-production method, depending on which method more accurately reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. Significant Accounting Policies, Estimates and Judgments (cont'd)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments. Future lease payments can arise from a change in an index or rate, if there is a change in the Company's estimate of the expected payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded to the statement of loss if the carrying amount of the ROU asset has been reduced to zero.

Transition to IFRS 16

The Company previously classified leases as operating or finance leases based on the Company's assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset. The Company did not have any finance leases in the comparative periods.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. ROU assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Company has elected to apply the practical expedient to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

An incremental ROU asset and lease liability of \$199,666 was recorded as of January 1, 2019, with no net impact on deficit. When measuring the lease liability, the Company discounted lease payments using the incremental borrowing rate of 4.29% at January 1, 2019.

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's annual audited consolidated financial statements, to the lease liability recognized on initial application of IFRS 16 on January 1, 2019:

Operating lease commitments - December 31, 2018	\$347,880
IFRS 16 recognition exemption - Short-term leases	(13,017)
Effect of discounting using the incremental borrowing rate - January 1, 2019	(135,197)
Lease liability recognized on adoption of IFRS 16 - January 1, 2019	\$199,666

For presentation on the consolidated statement of financial position, the current portion of the lease liability was classified within trade and other payables and the non-current portion was in non-current lease liability. The ROU asset was included within property, plant and equipment.

c) Significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of estimates and/or judgments that affect the amounts reported and disclosed in the consolidated financial statements and related notes. These estimates and judgments are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ materially from the amounts included in the financial statements. The critical estimates and judgments applied in the preparation of the unaudited condensed interim consolidated financial statements for the six months ended June 30, 2019 are consistent with those applied and disclosed in note 2(q) to the Company's audited consolidated financial statements for the year ended December 31, 2018.

Bluestone Resources Inc.
Notes for the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019
(Expressed in United States dollars - Unaudited)

3. Property, Plant and Equipment

	June 30, 2019			
	Land	Plant and equipment ⁽¹⁾	ROU asset ⁽²⁾	Total
Cost				
Balance, January 1, 2019	\$907,858	\$4,841,105	\$—	\$5,748,963
Adoption of IFRS 16 on January 1, 2019	—	—	199,666	199,666
Additions	—	61,961	—	61,961
Translation differences	—	2,410	7,644	10,054
Balance, June 30, 2019	907,858	4,905,476	207,310	6,020,644
Accumulated depreciation				
Balance, January 1, 2019	—	(446,087)	—	(446,087)
Charge for the period	—	(169,807)	(43,777)	(213,584)
Balance, June 30, 2019	—	(615,894)	(43,777)	(659,671)
Net book value at June 30, 2019	\$907,858	\$4,289,582	\$163,533	\$5,360,973

	December 31, 2018		
	Land	Plant and equipment ⁽¹⁾	Total
Cost			
Balance, January 1, 2018	\$907,858	\$2,987,668	\$3,895,526
Additions	—	1,943,443	1,943,443
Disposals	—	(87,478)	(87,478)
Translation differences	—	(2,528)	(2,528)
Balance, December 31, 2018	907,858	4,841,105	5,748,963
Accumulated depreciation			
Balance, January 1, 2018	—	(231,001)	(231,001)
Charge for the period	—	(302,564)	(302,564)
Disposals	—	87,478	87,478
Balance, December 31, 2018	—	(446,087)	(446,087)
Net book value at December 31, 2018	\$907,858	\$4,395,018	\$5,302,876

(1) Includes assets under construction of \$773,944 at June 30, 2019 (December 31, 2018 - \$978,299).

(2) The ROU asset relates to the Company's office lease contract.

Bluestone Resources Inc.
Notes for the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019
(Expressed in United States dollars - Unaudited)

4. Trade and Other Payables

	June 30, 2019	December 31, 2018
Trade payables	\$376,787	\$1,387,067
Accrued liabilities	363,853	430,224
Lease liability	178,089	—
Payroll liabilities	611,495	824,875
Income taxes payable	684	5,464
	1,530,908	2,647,630
Non-current portion of lease liability	(89,696)	—
Current trade and other payables	\$1,441,212	\$2,647,630

a) Lease liability

As at June 30, 2019, the Company's lease liability consisted of the following:

	June 30, 2019
Minimum lease payments:	
1 year	\$161,106
2-3 years	107,404
Undiscounted lease liability	268,510
Future interest expense on lease liability	(90,421)
Lease liability	\$178,089

For the three and six months ended June 30, 2019, interest expense on the lease liability of \$23,781 and \$49,577, respectively, were included in finance expenses in the condensed interim consolidated statements of loss. Total cash payments on leases for the three and six months ended June 30, 2019 were as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Cash payments on lease liability	\$39,412	\$79,067
Cash payments on short-term leases	17,677	45,903
Total cash payments on leases	\$57,089	\$124,970

Variable lease payments not included in the measurement of lease liabilities were \$nil as at June 30, 2019. There were no extension options, which were reasonably certain to be exercised, included in the measurement of the lease liability. As at June 30, 2019, there were no leases with residual value guarantees or leases not yet commenced to which the Company is committed.

Bluestone Resources Inc.
Notes for the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019
(Expressed in United States dollars - Unaudited)

5. Rehabilitation Provisions

The changes in the rehabilitation provision during the six months ended June 30, 2019 and the year ended December 31, 2018 were as follows:

	June 30, 2019	December 31, 2018
Balance, beginning of period	\$7,127,797	\$6,528,462
Accretion (unwinding of discount)	98,560	203,447
Change in estimates and rates	—	395,888
Balance, end of period	\$7,226,357	\$7,127,797

In connection with the acquisition of Cerro Blanco and Mita Geothermal, the Company has estimated the present value of future rehabilitation costs required to remediate the properties based on their current state. Although the ultimate amount of the rehabilitation liability is uncertain, the best estimate of these obligations is based on information currently available. Significant closure activities include land rehabilitation, equipment removal, demolition of buildings and other costs.

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation as at June 30, 2019 is \$7,770,681 (December 31, 2018 - \$7,770,681). The calculation of present value of estimated future cash flows assumed a discount rate of 2.75% (December 31, 2018 - 2.75%) and an inflation rate of 4% (December 31, 2018 - 4%). The liabilities are expected to be settled at various dates which are currently expected to extend from 2021 to 2023.

6. Share Capital

As at June 30, 2019, the Company's authorized share capital consisted of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

a) Private placements and limited recourse loans

On March 19, 2019, the Company completed a bought deal private placement (the "Private Placement") pursuant to which the Company issued 17,941,321 units at C\$1.25 per unit, with each unit consisting of one common share of the Company and one-half of one common share purchase warrant, and received gross proceeds of \$16,872,293 (C \$22,426,651). Each whole warrant is exercisable at C\$1.65 for a period of two years. The value attributed to the common shares was \$15,382,442 based on the fair value allocation between the common shares and warrants (note 6(b)). The Company incurred \$989,530 in fees in connection with the Private Placement during the six months ended June 30, 2019.

During the three and six months ended June 30, 2019, the Company recognized share-based compensation expense of \$46,732 and \$93,754 (three and six months ended June 30, 2018 - \$48,414 and \$97,840), respectively, in the condensed interim consolidated statement of loss relating to the limited recourse loans previously issued to certain employees.

Bluestone Resources Inc.
Notes for the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019
(Expressed in United States dollars - Unaudited)

6. Share Capital (cont'd)

b) Warrants

The changes in warrants outstanding during the six months ended June 30, 2019 and year ended December 31, 2018 are as follows:

	June 30, 2019		December 31, 2018	
	Number of warrants	Weighted avg. exercise price (C\$/warrant)	Number of warrants	Weighted avg. exercise price (C\$/warrant)
Outstanding, beginning of period	5,189,309	\$0.84	5,214,309	\$0.84
Issued	8,970,652	1.65	—	—
Exercised	(116,242)	(0.35)	(25,000)	(0.35)
Expired	(1,535,147)	(2.00)	—	—
Outstanding, end of period	12,508,572	\$1.28	5,189,309	\$0.84

As at June 30, 2019, the following warrants were outstanding:

Expiry date	Weighted avg. exercise price (C\$/warrant)	Number of warrants	Weighted avg. remaining contractual life in years
June 2, 2020	0.35	596,000	0.93
June 4, 2020	0.35	2,218,920	0.93
July 7, 2020	0.35	723,000	1.02
March 19, 2021	1.65	8,970,652	1.72
	\$1.35	12,508,572	1.50

The fair value of \$1,489,850 for the warrants issued for the Private Placement was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free rate - 1.64%, volatility - 50%, dividend yield - 0%, expected life - 2 years.

Bluestone Resources Inc.
Notes for the Condensed Interim Consolidated Financial Statements
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(Expressed in United States dollars - Unaudited)

6. Share Capital (cont'd)

c) Stock options

The changes in stock options outstanding during the six months ended June 30, 2019 and year ended December 31, 2018 are as follows:

	June 30, 2019		December 31, 2018	
	Number of options	Weighted avg. exercise price (C\$/option)	Number of options	Weighted avg. exercise price (C\$/option)
Outstanding, beginning of period	5,930,000	\$1.50	4,935,000	\$1.50
Granted	2,305,000	1.27	995,000	1.50
Cancelled/forfeited	(400,000)	(1.50)	—	—
Outstanding, end of period	7,835,000	\$1.43	5,930,000	\$1.50

5,814,163 of the stock options outstanding as at June 30, 2019 are exercisable at a weighted average exercise price of C\$1.47 per option.

The weighted average fair value of the stock options granted during the six months ended June 30, 2019 (year ended December 31, 2018) was estimated to be C\$0.43 (C\$0.36) per stock option using the Black-Scholes option pricing model with the following weighted average assumptions: Risk-free rate - 1.68% (1.71%), volatility - 50.00% (66.07%), dividend yield - 0% (0%), expected life - 2.90 years (2.13 years). The stock options granted during the six months ended June 30, 2019 expire on January 30, 2022 and March 21, 2024.

During the three and six months ended June 30, 2019, the Company recognized share-based compensation expense of \$185,665 and \$500,389 (three and six months ended June 30, 2018 - \$400,563 and \$819,129), respectively, in the condensed interim consolidated statement of loss relating to the stock options.

7. Exploration and Evaluation Expenses

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cerro Blanco operating expenditures	\$2,411,554	\$1,913,338	\$5,289,083	\$3,982,847
Feasibility study and pre-development	168,850	2,308,951	474,190	4,106,284
Corporate social responsibility and community relations	177,465	526,318	345,118	787,788
Mita Geothermal	25,097	260,023	59,099	475,959
Depreciation	81,858	68,587	158,876	141,805
Other projects	537	—	26,171	—
Change in rehabilitation provision estimates (note 5)	—	—	—	400,785
	\$2,865,361	\$5,077,217	\$6,352,537	\$9,895,468

Bluestone Resources Inc.
Notes for the Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019
(Expressed in United States dollars - Unaudited)

8. Related Party Transactions - Key Management Compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of key management personnel included in the condensed interim consolidated statements of loss and comprehensive loss was as follows:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Wages and consulting	\$472,265	\$339,544	\$965,082	\$736,614
Share-based compensation	188,594	388,711	477,709	796,205
	\$660,859	\$728,255	\$1,442,791	\$1,532,819

9. Financial Instruments

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

The fair values of the Company's cash and cash equivalents, accounts receivable, equity securities and trade and other payables approximate their carrying values, which are the amounts recorded on the consolidated statement of financial position due to their short-term nature.

10. Financial Risk Management

a) Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents, restricted cash and accounts receivable. Management believes that the credit risk concentration with respect to these financial instruments is remote as the balances primarily consist of amounts on deposit with a major financial institution and amounts receivable from the Government of Canada. The maximum exposure to credit risk as at June 30, 2019 was \$14,147,505 (December 31, 2018 - \$8,521,181).

b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2019, the Company had a cash balance of \$12,339,144 (December 31, 2018 - \$6,672,318) to settle current liabilities of \$1,441,212 (December 31, 2018 - \$2,647,630). All of the Company's financial liabilities are subject to normal trade terms.

c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and prices.

Interest rate risk

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

As at June 30, 2019, the weighted average interest rate earned on our cash and cash equivalents was 2.17%. With other variables unchanged, a 1% change in the annualized interest rate at June 30, 2019 would impact after-tax net loss by approximately \$121,000.

Foreign currency risk

The Company is exposed to foreign currency risk in connection with its Canadian dollar and Guatemala quetzal denominated financial instruments. A 10% fluctuation in the C\$/US\$ rate as at June 30, 2019 would result in an approximate \$754,000 increase/decrease in comprehensive loss. A 10% fluctuation in the US\$/Guatemala quetzal rate as at June 30, 2019 would result in an approximate \$26,000 increase/decrease in comprehensive loss.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of resources, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

10. Financial Risk Management (cont'd)

d) Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to explore and develop its projects for the benefit of its shareholders and other stakeholders. The Company considers the components of shareholders' equity as capital. The Company manages the capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares through private placements in order to maintain or adjust the capital structure.

There were no changes to the Company's approach to capital management during the six months ended June 30, 2019. The Company is not subject to externally imposed capital requirements.

11. Supplemental Cash Flow Information

Cash and cash equivalents included no short-term investments as at June 30, 2019 and December 31, 2018.

Other supplemental cash flow information for the six months ended June 30, 2019 and June 30, 2018 is as follows:

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Fair value of warrants issued from the Private Placement	\$1,402,473	\$—
Non-cash transfer of reserves on exercise of warrants	(12,900)	(2,774)
Income taxes paid	13,199	11,117