

Bluestone **RESOURCES INC.**

CONSOLIDATED FINANCIAL STATEMENTS

For the Twelve Months Ended December 31, 2018

and

Thirteen Months Ended December 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Bluestone Resources Inc.

Opinion

We have audited the accompanying consolidated financial statements of Bluestone Resources Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year ended December 31, 2018 and the thirteen months ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Bluestone Resources Inc. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and the thirteen months ended December 31, 2017 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes 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 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Erez Bahar.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

March 8, 2019

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

	Notes	December 31, 2018	December 31, 2017
Current assets			
Cash and cash equivalents	5	\$6,672,318	\$30,221,102
Accounts receivable		97,506	239,845
Prepaid expenses		174,075	220,750
Inventory		130,811	147,709
		7,074,710	30,829,406
Non-current assets			
Restricted cash	5	1,751,357	1,743,760
Property, plant and equipment	6	5,302,876	3,664,525
Exploration and evaluation assets	4, 7	30,126,433	30,126,433
Total assets		\$44,255,376	\$66,364,124
Current liabilities			
Trade and other payables	8	\$2,647,630	\$1,910,930
		2,647,630	1,910,930
Non-current liabilities			
Rehabilitation provisions	9	7,127,797	6,528,462
Deferred income tax liabilities	10	1,996,412	—
Total liabilities		11,771,839	8,439,392
Shareholders' equity			
Share capital	11	81,396,001	81,193,312
Reserves		10,404,099	9,154,063
Accumulated other comprehensive income		4,234,556	5,533,092
Deficit		(63,551,119)	(37,955,735)
Total shareholders' equity		32,483,537	57,924,732
Total liabilities and shareholders' equity		\$44,255,376	\$66,364,124

Nature of operations and going concern (note 1)
Commitments and contingencies (note 4 and 15b)
Events after the reporting period (note 17)

Approved on March 8, 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 consolidated financial statements.

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

	Notes	Twelve Months Ended December 31, 2018	Thirteen Months Ended December 31, 2017
Expenses			
Accounting and legal		\$302,636	\$327,062
Advertising and promotion		265,671	73,440
Corporate listing and filing fees		21,838	43,219
Exploration and evaluation expenses	7	18,946,581	4,129,553
Office and administration		815,320	538,921
Property investigation		—	27,644
Rent		145,895	39,660
Share-based compensation	11	1,445,780	1,522,198
Wages and consulting fees		2,813,526	1,544,235
		(24,757,247)	(8,245,932)
Interest income		368,245	302,875
Accretion expense	9	(203,447)	(138,684)
Other expenses		(2,015)	—
Foreign exchange gain (loss)		1,013,063	(262,393)
Loss before income tax		(23,581,401)	(8,344,134)
Income tax expense	10	(2,013,983)	(30,425)
Net loss		(25,595,384)	(8,374,559)
Translation adjustment		(1,298,536)	3,405,351
Comprehensive loss		(\$26,893,920)	(\$4,969,208)
Weighted average number of common shares outstanding – basic and diluted		63,837,546	33,433,881
Basic and diluted loss per common share		(\$0.40)	(\$0.25)

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

Bluestone Resources Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in United States dollars)

	Notes	Share capital		Reserves	Accumulated other comprehensive income	Deficit	Total shareholders' equity (deficiency)
		Shares	Amount				
Balance, December 1, 2016 (restated)	3	4,262,954	\$20,324,454	\$7,091,544	\$2,127,741	(\$29,581,176)	(\$37,437)
Private placements, net of issuance costs	11	55,886,032	57,295,700	525,633	—	—	57,821,333
Shares issued for limited recourse loans	11	500,000	565,312	—	—	—	565,312
Reduction of share capital for outstanding limited recourse loans	11	—	(565,312)	—	—	—	(565,312)
Consideration warrants issued	4	—	—	129,259	—	—	129,259
Special warrants issued	4	—	—	3,440,198	—	—	3,440,198
Share-based compensation	11	—	107,091	1,415,107	—	—	1,522,198
Exercise of warrants	11	3,166,574	3,466,067	(3,447,678)	—	—	18,389
Comprehensive income (loss) for the period		—	—	—	3,405,351	(8,374,559)	(4,969,208)
Balance, December 31, 2017		63,815,560	\$81,193,312	\$9,154,063	\$5,533,092	(\$37,955,735)	\$57,924,732
Share-based compensation	11	—	192,970	1,252,810	—	—	1,445,780
Exercise of warrants	11	25,000	9,719	(2,774)	—	—	6,945
Comprehensive loss for the year		—	—	—	(1,298,536)	(25,595,384)	(26,893,920)
Balance, December 31, 2018		63,840,560	\$81,396,001	\$10,404,099	\$4,234,556	(\$63,551,119)	\$32,483,537

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

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

	Notes	Twelve Months Ended December 31, 2018	Thirteen Months Ended December 31, 2017
Cash flows used in operating activities			
Net loss for the period		(\$25,595,384)	(\$8,374,559)
Accretion expense	9	203,447	138,684
Depreciation	6	302,564	231,001
Share-based compensation	11	1,445,780	1,522,198
Change in restoration provision estimate	9	395,888	(2,129,645)
Interest income		(361,228)	(302,875)
Other income		(23,366)	—
Income tax expense	10	2,013,983	30,425
Non-cash foreign exchange (gain) loss		(1,144,671)	24,719
Changes in non-cash working capital:			
Accounts receivable		99,785	(168,869)
Prepaid expenses		35,919	(214,480)
Inventory		16,898	20,847
Trade and other payables		975,833	1,466,207
Cash (used) in operating activities		(21,634,552)	(7,756,347)
Cash flows used in investing activities			
Cash paid on Acquisition	4	—	(17,900,000)
Cash acquired in Acquisition	4	—	339,890
Acquisition costs	4	—	(1,714,850)
Expenditures on plant and equipment	6	(2,032,664)	(2,521,974)
Proceeds from disposal of plant and equipment		22,709	—
Increase in restricted cash		(77,815)	(1,755,257)
Interest received		361,228	241,708
Cash (used) in investing activities		(1,726,542)	(23,310,483)
Cash flows from financing activities			
Proceeds from private placements	11	—	62,035,871
Private placement fees	11	—	(4,214,520)
Proceeds from exercise of warrants	11	6,945	18,387
Cash generated by financing activities		6,945	57,839,738
Effects of foreign exchange rate changes on cash and cash equivalents		(194,635)	3,427,071
(Decrease) increase in cash and cash equivalents		(23,548,784)	30,199,979
Cash and cash equivalents, beginning of the period		30,221,102	21,123
Cash and cash equivalents, end of the period		\$6,672,318	\$30,221,102

Supplemental cash flow information (note 16)

The accompanying notes are an integral part of these 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 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 \$4,427,080 as at December 31, 2018. 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 with the additional financing raised subsequent to December 31, 2018 (note 17).

These 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The comparative information has also been prepared on this basis.

The consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2019.

The accounts of Entre Mares de Guatemala S.A. ("Entre Mares") and Blue NRG Limited ("NRG") have been consolidated from the date of acquisition on May 31, 2017 (note 4). For all periods presented, these 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 of year end

Effective in 2017, the Company changed its financial year end from November 30 to December 31 in order to align the Company's year end with that of comparative companies and its subsidiary, Entre Mares. Accordingly, these consolidated financial statements present the results of operations for the twelve months ended December 31, 2018 and thirteen months ended December 31, 2017.

c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss ("FVTPL"), which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

d) Foreign currency translation

The presentation currency of the Company is the United States dollar. The functional currency of the Company's wholly-owned subsidiaries is the United States dollar. The functional currency of the parent company, Bluestone Resources Inc., is the Canadian dollar. The monetary assets and liabilities of the wholly-owned subsidiaries that are denominated in foreign currencies at the reporting date are translated into the functional currency at the rate of exchange on the reporting date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss in the statement of loss and comprehensive loss.

Assets and liabilities of the parent company, Bluestone Resources Inc., are translated into United States dollars at the exchange rate in effect on date of the statement of financial position. Income, expenses and equity items are translated at the exchange rates approximating those in effect on the date of the transactions. Gains and losses from these translations are recognized in accumulated other comprehensive income ("OCI").

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

e) Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash on hand, cash held at financial institutions and short-term investments with an original maturity of three months or less. Restricted cash is held at financial institutions as collateral for environmental bonding. Cash and cash equivalents and restricted cash are classified as FVTPL.

f) Inventory

Inventory consists of materials and supplies. Inventories of materials and supplies expected to be used in operations are valued at the lower of weighted average cost or replacement cost, reduced by an amount to take into account any impairment caused by obsolescence, deterioration, damage or other factors. If the circumstances that previously caused impairment are mitigated, the provision for impairment is reversed to the lesser of the new determination of value or original cost. Impairment provisions for inventory and any subsequent reversal are included as part of net loss in the consolidated statement of loss and comprehensive loss.

g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statement of loss during the period in which they are incurred.

Plant and equipment are depreciated using the straight-line method over estimated lives of 3 - 13 years. Land is not depreciated.

The Company allocates the amount initially recognized in respect of an item of equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset on the date of disposition and are included as part of other gains and losses in the consolidated statement of loss and comprehensive loss.

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

h) Exploration and evaluation assets

Before legal rights to explore a property have been acquired, costs are expensed as incurred. Costs related to the acquisition of exploration and evaluation assets are capitalized by property. Once a decision is made that a mining project is technically feasible and commercially viable, capitalized costs of the related property are reclassified to mineral property development costs within property, plant and equipment and depreciated using the unit of production method. If, after management review, it is determined that capitalized acquisition costs are not recoverable over the estimated economic life of the property, the property is abandoned or management deems there to be an impairment in value, the property is written down to its net realizable value.

Costs related to the exploration and evaluation of mineral properties are recognized in profit or loss as incurred. Exploration expenditures are the costs of exploring for mineral resources other than those occurring at existing operations and projects and comprise geological and geophysical studies, exploratory drilling, and sampling and resource development. Evaluation expenditures include the cost of conceptual and feasibility studies and evaluation of mineral resources at existing operations. Once a decision is made that a mining project is technically feasible and commercially viable, subsequent directly attributable expenditures are considered development expenditure and are capitalized within property, plant and equipment. If a property does not prove economically recoverable or technically feasible, all irrecoverable costs associated with the project, net of any previous impairment provisions, are written off.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral interest. If payments received exceed the capitalized cost of the mineral interest, the excess is recognized as income in the year received.

The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and evaluation and future profitable production or proceeds from the disposition thereof.

i) Contingent consideration

Contingent consideration from an asset acquisition is recognized when: (i) the conditions associated with the contingency are met; (ii) the Company has a present legal or constructive obligation that can be estimated reliably; and (iii) and it is probable that an outflow of economic benefits will be required to settle the obligation.

j) Rehabilitation provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as accretion in the consolidated statement of loss and comprehensive loss.

The site restoration provision at the date of the consolidated statement of financial position represents the Company's best estimate of the present value of the future site restoration costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the site restoration provision and associated asset. To the extent that the site restoration provision was created due to exploration activities which do not yet qualify for capitalization, the amount of the associated asset is reduced immediately by a charge to exploration and evaluation expenses for the same amount.

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

k) Income taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

l) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated to common shares and warrants on a relative fair value basis whereby the common shares are valued based on the quoted market price of the common shares at the time the units are priced, and the warrants are valued using the Black-Scholes option pricing model.

m) Share-based compensation

The Company's stock option plan allows Company employees, directors, officers and consultants to acquire shares of the Company. The fair value of options granted is recognized as share-based compensation with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Fair value is measured at grant date and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. In situations where equity instruments are issued to consultants and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based compensation. Otherwise, share-based compensation is measured at the fair value of goods or services received.

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

n) Loss per common share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per common share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive share equivalents, such as stock options and warrants and assumes the receipt of proceeds upon exercise of the options to determine the number of shares assumed to be purchased at the average market price during the year.

Existing stock options and warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share is the same for the periods presented.

o) Impairment of non-financial assets

At each reporting date the carrying amounts of the Company's long-lived non-financial assets, which are comprised of property, plant and equipment, and exploration and evaluation assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset or its related cash generating unit. For purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit").

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the associated assets are reduced to their recoverable amount and the impairment loss is recognized in profit or loss for the year.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized.

p) Financial instruments

Classification

Financial assets are classified at initial recognition as either: measured at amortized cost, FVTPL or fair value through other comprehensive income ("FVTOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure at FVTPL.

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

Measurement

Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in the consolidated statement of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in the consolidated statement of loss and comprehensive loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's credit risk will be recognized in OCI.

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Impairment

The Company assesses on a forward looking basis the expected credit losses ("ECL") associated with financial assets measured at amortized cost, contract assets and debt instruments carried at FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

q) Significant estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of judgments and/or estimates that affect the amounts reported and disclosed in the consolidated financial statements and related notes. These judgments and estimates 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. Information about such judgments and estimates is contained in the accounting policies and/or notes to the consolidated financial statements, and the key areas are summarized below.

Areas of judgment that have the most significant effect on the application of accounting policies in the consolidated financial statements are:

- Carrying value and recoverability of exploration and evaluation assets;
- Determination of useful lives of plant and equipment;
- Functional currency;
- Deferred tax assets and liabilities;
- Rehabilitation provisions; and
- Business combinations.

The preparation of the consolidated financial statements requires the Company to make estimates and assumptions about the future. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements are:

- Carrying value and recoverability of exploration and evaluation assets;
- Determination of useful lives of plant and equipment;
- Deferred tax assets and liabilities;
- Rehabilitation provisions; and
- Share-based compensation.

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

Carrying value and recoverability of exploration and evaluation assets The carrying amount of the Company's exploration and evaluation assets do not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to proceed with and complete development and upon future profitable production or proceeds from the disposition of the exploration and evaluation asset interests themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its exploration and evaluation asset interests or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

Determination of useful lives of plant and equipment Plant and equipment are depreciated using the straight-line method, which includes estimates to determine useful lives and residual values.

Functional currency In accordance with IAS 2, *The Effects of Changes in Foreign Exchange Rates*, the Company determined that the functional currency of the companies acquired in the acquisition of Cerro Blanco and Mita Geothermal (collectively, the "Acquisition") (note 4) is the United States dollar as this is the currency of the primary economic environment in which the companies operate. The functional currency of the parent company, Bluestone Resources Inc., is the Canadian dollar as this is the currency of the primary economic environment in which the parent company operates.

Deferred tax assets and liabilities The measurement of the deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of deferred taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future tax provisions or recoveries could be affected.

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

Rehabilitation provisions Rehabilitation provisions are a consequence of exploration activities and the majority of rehabilitation costs are incurred near the end of the life of mine. Our accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the operation to reflect known developments. Although the ultimate cost to be incurred is uncertain, we estimate our costs based on studies using current rehabilitation standards and techniques.

The ultimate magnitude of these costs is uncertain, and cost estimates can vary in response to many factors including changes to the relevant legal requirements, whether closure plans achieve intended reclamation goals, the emergence of new restoration techniques or experience at other mine sites, local inflation rates and exchange rates when liabilities are anticipated to be settled in a currency other than the United States dollar. The expected timing of expenditure can also change. As a result, there could be significant adjustments to the provision for rehabilitation, which would affect future financial results.

Business combinations Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgments as to whether the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in *IFRS 3, Business Combinations*. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. The Acquisition was not determined to be a business combination.

Share-based compensation We measure our share-based compensation expense by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures. The value of the share-based compensation expense for the twelve months ended December 31, 2018 and the thirteen months ended December 31, 2017, along with the assumptions and model used for estimating fair value for share-based compensation transactions, are disclosed in note 11.

r) Future accounting changes

IFRS 16, Leases ("IFRS 16")

IFRS 16 is a new standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting. The Company will apply IFRS 16 on its effective date of January 1, 2019 using the modified retrospective approach with measurement of the right-of-use asset at an amount equal to the lease liability. On initial application, the Company will apply the following practical expedients: 1) only apply IFRS 16 to contracts that were previously identified as leases; and 2) not recognize a lease for which the underlying asset is of low value or considered to be a short-term lease. The Company expects that IFRS 16 will result in an increase in assets and liabilities as fewer leases will be expensed as payments are made. This will result in an increase in depreciation and interest expenses. The Company also expects cash used in financing activities to increase as the principal portion of lease payments will be recorded as financing outflows in the Company's consolidated statement of cash flow.

International Financial Reporting Interpretations Committee 23, Uncertainty over income tax treatments ("IFRIC 23")

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. IFRIC 23 requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the application of IFRIC 23 to have a significant impact on the Company's consolidated financial statements.

3. Changes in Accounting Policies

The details of the new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

a) IFRS 9, *Financial instruments* ("IFRS 9")

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, *Financial instruments: recognition and measurement* ("IAS 39"). There was no material impact to the Company's consolidated financial statements as a result of transitioning to IFRS 9 on January 1, 2018.

Classification and measurement of financial assets and liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 financial assets categories of held to maturity, loans and receivables and available for sale.

The impact of IFRS 9 on the classification and measurement of financial assets and liabilities is set out as follows:

A financial asset is classified as measured at amortized cost, FVTPL or FVTOCI. The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. Financial assets and liabilities are classified as follows:

	IAS 39 Classification	IFRS 9 Classification
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Restricted cash	FVTPL	FVTPL
Trade and other payables	Other financial liabilities	Amortized cost

Impairment of financial assets

An ECL model applies to financial assets measured at amortized cost, contract assets and debt investments at FVTOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of accounts receivable.

The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are all current and the minimal historical level of default.

b) Change in currency presentation

With the Company's Guatemalan operations having the United States dollar as their functional currency, the Company decided to change its presentation currency from the Canadian dollar to the United States dollar on May 31, 2017 to better reflect the operations of the consolidated entity. The change in the financial statement presentation currency is considered an accounting policy change and has been accounted for retrospectively. Exchange differences arising on translation from the Canadian dollar functional currency to the United States dollar presentation currency have been recognized in other comprehensive income and accumulated as a separate component of equity.

4. Acquisition of the Cerro Blanco and Mita Geothermal

On May 31, 2017, the Company completed the transaction (the "Acquisition") set out in a transaction agreement with Goldcorp Inc. ("Goldcorp") and its affiliates and acquired 100% of the issued and outstanding shares of Entre Mares, Goldcorp's indirectly wholly-owned subsidiary which owns 100% of Cerro Blanco, and 100% of the issued and outstanding shares of NRG, Goldcorp's indirectly wholly-owned subsidiary which owns 100% of Mita Geothermal. In addition, the Company acquired a right of first refusal ("Marlin Equipment ROFR") on certain assets and equipment at Goldcorp's Marlin mine, located in northern Guatemala. The consideration for the Marlin Equipment ROFR was not included in the purchase price allocation below as it has been accounted for as a separate transaction (note 6). Based on an assessment of the relevant facts and circumstances, the Company concluded that the Acquisition should be accounted for as an acquisition of assets and assumption of liabilities.

The following table summarizes the allocation of the purchase price and related acquisition costs to the fair value of the assets acquired and liabilities assumed of Entre Mares and NRG at the date of acquisition:

Cash	\$17,900,000
Special Warrants ⁽¹⁾	3,440,198
Consideration Warrants ⁽²⁾	129,259
Transaction costs	1,714,850
Total consideration	\$23,184,307
Cash and cash equivalents	\$339,890
Amounts receivable	5,933
Inventory	168,556
Property, plant and equipment	1,114,552
Exploration and evaluation assets (note 7)	30,126,433
Accounts payable and accrued liabilities	(51,634)
Rehabilitation provision	(8,519,423)
Net identifiable assets acquired	\$23,184,307

⁽¹⁾ Consisted of 3,099,160 special warrants (note 11(c)) of the Company (the "Special Warrants"), each entitling Goldcorp to acquire one common share of the Company without further payment or action.

⁽²⁾ Consisted of 258,805 common share purchase warrants of the Company (the "Consideration Warrants"). Each Consideration Warrant will be exercisable into one common share at an exercise price of \$2.00 until May 31, 2019.

As a part of the Acquisition, the Company is required to make a contingent payment of \$15,000,000 to Goldcorp within six months of commencement of commercial production at Cerro Blanco and pay Goldcorp a 1% net smelter returns royalty on the sale of gold and silver produced from Cerro Blanco. These contingent considerations were not recognized at the date of the Acquisition.

Bluestone Resources Inc.
Notes for the Consolidated Financial Statements
For the twelve months ended December 31, 2018
(Expressed in United States dollars)

5. Cash and Cash Equivalents and Restricted Cash

	December 31, 2018	December 31, 2017
Cash balances	\$6,672,318	\$7,048,773
Short-term investments	—	23,172,329
Current cash and cash equivalents	\$6,672,318	\$30,221,102

Restricted cash of \$1,751,357 as at December 31, 2018 (December 31, 2017 - \$1,743,760) relates to term deposits provided as cash collateral for environmental bonding with the Ministry of Environment in Guatemala.

6. Property, Plant and Equipment

	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 \$978,299 at December 31, 2018.

Bluestone Resources Inc.
Notes for the Consolidated Financial Statements
For the twelve months ended December 31, 2018
(Expressed in United States dollars)

6. Property, Plant and Equipment (cont'd)

	December 31, 2017		
	Land	Plant and equipment ⁽¹⁾	Total
Cost			
Balance, December 1, 2016	\$—	\$—	\$—
Acquisition of the Cerro Blanco Gold and Mita Geothermal projects (note 4)	907,858	206,694	1,114,552
Additions ⁽²⁾	—	2,780,974	2,780,974
Balance, December 31, 2017	907,858	2,987,668	3,895,526
Accumulated depreciation			
Balance, December 1, 2016	—	—	—
Charge for the period	—	(231,001)	(231,001)
Balance, December 31, 2017	—	(231,001)	(231,001)
Net book value at December 31, 2017	\$907,858	\$2,756,667	\$3,664,525

⁽¹⁾ Includes assets under construction of \$154,639 at December 31, 2017.

⁽²⁾ Includes assets received from Goldcorp's Marlin mine in relation to the \$2,000,000 deposit under the Marlin Equipment ROFR (note 4). As at December 31, 2018 and December 31, 2017, all assets relating to the deposit have been received.

Bluestone Resources Inc.
Notes for the Consolidated Financial Statements
For the twelve months ended December 31, 2018
(Expressed in United States dollars)

7. Exploration and Evaluation Assets and Expenses

Exploration and evaluation assets as at December 31, 2018 and December 31, 2017 relate to Cerro Blanco and Mita Geothermal (note 4).

Exploration and evaluation expenses for the twelve months ended December 31, 2018 and thirteen months ended December 31, 2017 were for the following:

	Twelve Months Ended December 31, 2018	Thirteen Months Ended December 31, 2017
Cerro Blanco operating expenditures	\$9,545,732	\$5,125,342
Feasibility study	6,605,023	471,933
Corporate social responsibility and community relations	1,504,212	302,949
Geothermal	604,264	127,973
Depreciation	291,462	231,001
Change in rehabilitation provision estimates (note 9)	395,888	(2,129,645)
	\$18,946,581	\$4,129,553

8. Trade and Other Payables

	December 31, 2018	December 31, 2017
Trade payables	\$1,387,067	\$1,005,944
Accrued liabilities	430,224	445,006
Payroll liabilities	824,875	454,779
Income taxes payable	5,464	5,201
	\$2,647,630	\$1,910,930

Bluestone Resources Inc.
Notes for the Consolidated Financial Statements
For the twelve months ended December 31, 2018
(Expressed in United States dollars)

9. Rehabilitation Provisions

The changes in the close down and restoration provision during the twelve months ended December 31, 2018 and the thirteen months ended December 31, 2017 were as follows:

	December 31, 2018	December 31, 2017
Balance, beginning of period	\$6,528,462	\$—
Acquisition of Cerro Blanco and Mita Geothermal (note 4)	—	8,519,423
Accretion (unwinding of discount)	203,447	138,684
Change in estimates and rates	395,888	(2,129,645)
Balance, end of period	\$7,127,797	\$6,528,462

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. The Company did not have any rehabilitation provisions prior to the acquisition of Cerro Blanco and Mita Geothermal.

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 revision in the estimated cash flows during the twelve months ended December 31, 2018 was due to additional disturbance at Mita Geothermal from flow-testing activities. The revision in the estimated cash flows during the thirteen months ended December 31, 2017 was due to new information received regarding the removal of the dewatering pump at Cerro Blanco and the restoration of geothermal wells for Mita Geothermal. The changes were recorded in exploration and evaluation expenses in the consolidated statement of loss and comprehensive loss (note 7).

The total amount of estimated undiscounted cash flows required to settle the Company's estimated obligation as at December 31, 2018 is \$7,770,681 (December 31, 2017 - \$7,143,633). The calculation of present value of estimated future cash flows assumed a discount rate of 2.75% (December 31, 2017 - 2.94%) and an inflation rate of 4% (December 31, 2017 - 4%). The liabilities are expected to be settled at various dates which are currently expected to extend from 2021 to 2023.

A 1% increase or decrease in the discount rate would cause the rehabilitation provision to decrease or increase by approximately \$220,000.

Bluestone Resources Inc.
Notes for the Consolidated Financial Statements
For the twelve months ended December 31, 2018
(Expressed in United States dollars)

10. Income Tax

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	Twelve Months Ended December 31, 2018	Thirteen Months Ended December 31, 2017
(Loss) before income taxes	(\$23,581,401)	(\$8,344,134)
Canadian federal and provincial income tax rates	27.00%	26.00%
Income tax recovery based on the above rates	(6,366,978)	(2,169,475)
Increase due to:		
Share-based compensation and other non-deductible expenses	2,009,015	717,324
Losses and temporary differences for which no future income tax asset has been recognized	3,899,473	1,215,295
Foreign exchange translation and revaluation	1,876,470	—
Non-deductible portion of capital losses	—	253,539
Effect of different tax rates in foreign jurisdictions	596,003	13,742
Total income tax expense	\$2,013,983	\$30,425
Current tax expense	17,571	30,425
Deferred tax expense	1,996,412	—
Total income tax expense	\$2,013,983	\$30,425

The significant components of the Company's recognized net deferred income tax liability at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Guatemala property, plant and equipment	\$260,801	\$—
Guatemala exploration and evaluation assets and other	1,735,611	—
Deferred income tax liabilities	\$1,996,412	\$—

10. Income Tax (cont'd)

The components of temporary differences, unused tax credits and unused tax losses are as follows:

	Expiry Dates	December 31, 2018	December 31, 2017
Canadian tax losses	2026 to 2038	\$12,821,715	\$9,623,381
United States tax losses	2028 to no expiry date	707,209	707,668
Barbados tax losses	2019 to 2025	85,872	54,777
Share issues costs and other	2039 to 2041	1,892,527	4,604,573
Canadian exploration and evaluation assets	No expiry date	1,507,923	1,639,784
Canadian investment tax credits	2025 to 2032	140,339	152,611
United States exploration and evaluation assets	No expiry date	2,351,152	2,351,152
Guatemala property, plant and equipment	No expiry date	—	1,430,012
Guatemala exploration and evaluation assets	No expiry date	—	2,333,019
Guatemala rehabilitation provisions	No expiry date	7,127,797	6,528,462

In Guatemala, a company can elect in any given year to be taxed based on other net taxable income or gross revenue. The income tax rate is 25% while the gross revenue tax rate is 7%. It is uncertain at this point how the Company would elect to be taxed in the future years. The tax attributes in Guatemala of the property, plant and equipment and exploration and evaluation assets exceed the book value of the acquisition price by over \$150 million. Those amounts are not reflected in the above table as they are considered a permanent difference rather than a temporary difference for accounting purposes under IFRS.

11. Share Capital

As at December 31, 2018, 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.

On May 24, 2017, the Company completed a 5 old for 1 new common share consolidation. All share and per share information in these consolidated financial statements have been restated to retroactively reflect the effects of this consolidation.

a) Private placements and limited recourse loans

During February and March of 2017, the Company received gross proceeds of \$2,833,623 in convertible loans. On June 20, 2017, the loans were converted into 2,552,699 units, with each unit consisting of one common share of the Company and half of a warrant (note 11(b)) of the Company. Each whole warrant is exercisable at C\$2.00 per share for a period of two years. The value attributed to the common shares was \$2,307,971 based on the fair value allocation between the common shares and the warrants (note 11(b)). The convertible loans are included in private placements during the thirteen months ended December 31, 2017 as they automatically converted to common shares on the conversion of the convertible notes.

In connection with the Acquisition, the Company completed a private placement pursuant to which the Company issued 53,333,333 subscription receipts at a price of C\$1.50 per subscription receipt for gross proceeds of \$59,202,248 (C\$80,000,000), with each subscription receipt entitling the holder thereof to receive one common share of the Company. On June 20, 2017, the subscription receipts were automatically converted and the underlying common shares of the Company were issued.

The Company incurred \$4,214,520 in fees in connection with private placements during the thirteen months ended December 31, 2017.

In June 2017, the Company issued 500,000 common shares to certain employees with a fair value of \$565,312 (C\$750,000) in connection with limited recourse loans (note 13(c)). During the twelve months ended December 31, 2018, the Company recognized share-based compensation expense \$192,970 (thirteen months ended December 31, 2017 - \$107,091) in the consolidated statement of loss and comprehensive loss relating to the limited recourse loans.

Bluestone Resources Inc.
Notes for the Consolidated Financial Statements
For the twelve months ended December 31, 2018
(Expressed in United States dollars)

11. Share Capital (cont'd)

b) Warrants

The changes in warrants outstanding during the twelve months ended December 31, 2018 and thirteen months ended December 31, 2017 are as follows:

	December 31, 2018		December 31, 2017	
	Number of warrants	Weighted avg. exercise price (C\$/warrant)	Number of warrants	Weighted avg. exercise price (C\$/warrant)
Outstanding, beginning of period	5,214,309	\$0.84	3,850,376	\$0.61
Issued	—	—	1,535,147	2.00
Exercised	(25,000)	0.35	(67,414)	0.35
Expired	—	—	(103,800)	10.00
Outstanding, end of period	5,189,309	\$0.84	5,214,309	\$0.84

As at December 31, 2018, the following warrants were outstanding:

Expiry date	Weighted avg. exercise price (C\$/warrant)	Number of warrants	Weighted avg. remaining contractual life in years
May 31, 2019	\$2.00	258,805	0.41
June 20, 2019	2.00	1,276,342	0.47
June 2, 2020	0.35	596,000	1.42
June 4, 2020	0.35	2,313,920	1.43
July 7, 2020	0.35	744,242	1.52
	\$0.84	5,189,309	1.15

The fair value of \$129,259 for the Consideration Warrants (note 4) issued during the thirteen months ended December 31, 2017 was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate – 0.74%, volatility – 100%, dividend yield – 0%, expected life – 2 years.

The fair value of \$525,633 for the warrants issued on convertible loan conversion (note 11(a)) during the thirteen months ended December 31, 2017 was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate – 0.91%, volatility – 100%, dividend yield – 0%, expected life – 2 years.

c) Special warrants

As partial consideration for the Acquisition, the Company issued 3,099,160 Special Warrants to Goldcorp entitling Goldcorp to acquire 3,099,160 common shares of the Company for no further consideration or action. The fair value of the Special Warrants was determined to be \$3,440,198 based on the concurrent subscription receipt financing price of C\$1.50/common share. The Special Warrants were all automatically exercised on June 20, 2017.

11. Share Capital (cont'd)

d) Stock options

The Company has established a stock option plan (the "Plan") for directors, officers, employees and consultants of the Company and its subsidiaries (each a "Participant"). From time to time, shares may be reserved by the Board, in its discretion, for options under the Plan, provided that at the time of the grant, the total number of shares so reserved for issuance by the Board shall not exceed 10% of the issued and outstanding listed shares (on a non-diluted basis) as at the date of grant and for a term of exercise not exceeding five years. The Plan contains no vesting requirements, but permits the Board to specify a vesting schedule at its discretion. No options shall be granted, without regulatory approval, entitling any single Participant to purchase in excess of 5% of the then outstanding shares in the Company in any twelve month period and no more than 2% of the optioned shares may be issued to any one consultant or to all persons performing investor relations activities in the aggregate in any twelve month period. If the option rights granted under the Plan shall expire or terminate for any reason without having been exercised, such optioned shares may be made available for other options to be granted under the Plan. The shares so reserved by the Board under the Plan shall be authorized but unissued shares.

The options are non-transferable and will expire, if not exercised, immediately upon dismissal by the Company with cause or 90 days following the date the optionee otherwise ceases, except in the event of death, to be a Participant. In the event of death, the legal representatives of the deceased Participant can exercise the deceased Participant's options until the earlier of the expiry date of the options and one year following the Participant's death.

The changes in stock options outstanding during the twelve months ended December 31, 2018 and thirteen months ended December 31, 2017 are as follows:

	December 31, 2018		December 31, 2017	
	Number of options	Weighted avg. exercise price (C\$/option)	Number of options	Weighted avg. exercise price (C\$/option)
Outstanding, beginning of period	4,935,000	\$1.50	—	\$—
Granted	995,000	1.50	4,935,000	1.50
Outstanding, end of period	5,930,000	\$1.50	4,935,000	\$1.50

3,950,000 of the stock options outstanding as at December 31, 2018 are exercisable at a weighted average exercise price of C\$1.50 per option.

The weighted average fair value of the stock options granted during the twelve months ended December 31, 2018 (thirteen months ended December 31, 2017) was estimated to be C\$0.36 (C\$0.67) per stock option using the Black-Scholes option pricing model with the following weighted average assumptions: Risk-free rate – 1.71% (0.91%), volatility – 66.07% (75.05%), dividend yield – 0% (0%), expected life – 2.13 years (2.00 years). The stock options granted during the twelve months ended December 31, 2018 expire on January 2, 2021 and January 28, 2021.

During the twelve months ended December 31, 2018, the Company recognized share-based compensation expense of \$1,252,810 (thirteen months ended December 31, 2017 - \$1,415,107) in the consolidated statement of loss and comprehensive loss relating to the stock options.

12. Segmented Information

The Company has one operating segment, as defined by IFRS 8, *Operating Segments*, being the operations in Guatemala. All non-current assets are located in Guatemala.

13. Related Party Transactions

a) 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 consolidated statements of loss and comprehensive loss was as follows:

	Twelve Months Ended December 31, 2018	Thirteen Months Ended December 31, 2017
Wages and consulting fees	\$2,020,236	\$1,174,375
Share-based compensation	1,259,185	1,330,884
	\$3,279,421	\$2,505,259

b) Related party payables

The balance payable to related parties as at December 31, 2018 was \$609,891 (December 31, 2017 - \$526,629). During the thirteen months ended December 31, 2017, the Company received a \$10,513 loan from an officer and director of the Company. The amount was fully repaid within the thirteen months ended December 31, 2017.

c) Limited recourse loans

In June 2017, the Company issued 500,000 common shares with a fair value of C\$750,000 to certain employees. In connection with the issuance of these shares, the Company made an interest free, non-recourse loan to the employees in the amount of C\$750,000 to enable them to acquire the shares. The employees pledged the shares to the Company as security for the loan until the shares are sold to the Company or are otherwise released to the employees in accordance with the terms of the Company's management compensation plan.

In the event that the shares sold to the Company are insufficient to repay the loan, the loan is forgiven. 25% of the shares vest on grant, with the remainder vesting 25% annually thereafter. The loan is repayable upon the termination of an employee's employment with the Company until the earlier of: 1) a change of control of the Company, 2) three years from the grant date of the loan and 3) the commencement of commercial production at Cerro Blanco, after which time the loan may be forgiven at the request of the employees.

14. 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 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.

15. 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 December 31, 2018 was \$8,521,181 (December 31, 2017 - \$32,204,707).

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 December 31, 2018, the Company had a cash balance of \$6,672,318 (December 31, 2017 - \$30,221,102) to settle current liabilities of \$2,647,630 (December 31, 2017 - \$1,910,930). All of the Company's financial liabilities are subject to normal trade terms.

In the normal course of business, we enter into contracts that give rise to commitments for future minimum payments. The following is a maturity profile of financial liabilities and operating and capital commitments presenting undiscounted cash flows:

	Payments due by period (as at December 31, 2018)		
	Less than one year	1 - 2 years	After 2 years
Trade and other payables	\$2,647,630	\$—	\$—
Minimum lease payments	154,552	180,311	—
Exploration and evaluation expense commitments	37,265	—	—
Total contractual obligations	2,839,447	180,311	0
Rehabilitation provisions (note 9)	—	—	7,770,681
Total	\$2,839,447	\$180,311	\$7,770,681

15. Financial Risk Management

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 December 31, 2018, the weighted average interest rate earned on our cash and cash equivalents was 2.06%. With other variables unchanged, a 1% change in the annualized interest rate at December 31, 2018 would impact after-tax net loss by approximately \$65,000.

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 December 31, 2018 would result in an approximate \$55,000 increase/decrease in comprehensive loss. A 10% fluctuation in the US\$/Guatemala quetzal rate as at December 31, 2018 would result in an approximate \$50,000 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.

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 twelve months ended December 31, 2018. The Company is not subject to externally imposed capital requirements.

16. Supplemental Cash Flow Information

Supplemental cash flow information for the twelve months ended December 31, 2018 and thirteen months ended December 31, 2017 is as follows:

	December 31, 2018	December 31, 2017
Non-cash transfer of reserve on exercise of warrants	\$2,774	\$3,440,198
Income taxes paid	\$14,406	\$—
Issuance of common shares for limited recourse loans	\$—	\$565,312

Expenditures on plant and equipment in trade and other payables as at December 31, 2018 were \$169,779 (December 31, 2017 - \$259,000). No interest was paid during the twelve months ended December 31, 2018 and thirteen months ended December 31, 2017.

17. Events After the Reporting Period

Subsequent to the reporting period, the Company announced that it has entered into an agreement for a bought deal private placement for up to C\$16,000,000 of units of the Company at a price of C\$1.25 per unit. Each unit will consist of one common share of the Company and one-half of one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company for 24 months from the closing of the offering at a price of C\$1.65. The Company has also granted to the underwriters the option to sell up to an additional C\$5,000,000 of units. The Company has received conditional acceptance of the private placement transaction from the TSXV.