



*Unaudited Condensed Interim Consolidated Financial Statements of
Cornerstone Capital Resources Inc.*

*For the three and six months ended
June 30, 2018*



NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Cornerstone Capital Resources Inc. for the three and six months ended June 30, 2018 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CORNERSTONE CAPITAL RESOURCES INC.

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CORNERSTONE CAPITAL RESOURCES INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

| | As at June 30, 2018 \$ | As at December 31, 2017 \$ |
|--|---------------------------------|-------------------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash and cash equivalents | 7,127,715 | 564,181 |
| Marketable securities (Note 8) | 2,094 | 2,141 |
| Receivables (Note 9) | 151,904 | 128,128 |
| Prepaid expenses | 203,410 | 192,568 |
| Assets held for spin-off (Note 2) | 217,680 | 1,033,177 |
| TOTAL CURRENT ASSETS | 7,702,803 | 1,920,195 |
| Long term investments (Note 7, 10) | 23,700,000 | 125,757,292 |
| Marketable securities (Note 7, 8) | 64,659,247 | 86,779,516 |
| Property and equipment | 182,788 | 286,797 |
| TOTAL NON-CURRENT ASSETS | 88,542,035 | 212,823,605 |
| TOTAL ASSETS | 96,244,838 | 214,743,800 |
| LIABILITIES | | |
| CURRENT | | |
| Trade payables and accrued liabilities | 757,681 | 437,234 |
| Liabilities held for spin-off (Note 2) | 35,610 | 18,078 |
| TOTAL CURRENT LIABILITIES | 793,291 | 455,312 |
| Deferred tax liability (Note 10) | 5,925,000 | 31,439,323 |
| TOTAL LIABILITIES | 6,718,291 | 31,894,635 |
| EQUITY | | |
| Shareholders' equity (Note 12) | 89,526,547 | 182,849,165 |
| TOTAL LIABILITIES AND EQUITY | 96,244,838 | 214,743,800 |

Plan of arrangement and discontinued operations (Note 2)

Basis of presentation (Note 3)

Contingencies (Note 16)

Commitments (Note 17)

Events after the reporting period (Note 18)

APPROVED BY THE BOARD OF DIRECTORS ON AUGUST 28, 2018:

"Brooke Macdonald" Director

"Beverley Evans" Director

See accompanying notes to the unaudited condensed interim consolidated financial statements

CORNERSTONE CAPITAL RESOURCES INC.

Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive (loss) Income

(Expressed in Canadian Dollars)

| | Three months ended June 30, 2018 \$ | Three months ended June 30, 2017 \$ | Six months ended June 30, 2018 \$ | Six months ended June 30, 2017 \$ |
|---|--|--|--|--|
| REVENUE AND OTHER INCOME | | | | |
| Unrealized gain (loss) on value of marketable securities | 2,321 | (166) | 2,673 | (83) |
| Investment income | - | 366 | 16 | 369 |
| TOTAL REVENUE AND OTHER INCOME | 2,321 | 200 | 2,689 | 286 |
| EXPENSES | | | | |
| Exploration and evaluation expenditures (Note 11) | 235,277 | 431,360 | 499,549 | 555,903 |
| General and administrative | 312,389 | 355,933 | 614,263 | 708,301 |
| Share-based payments (Note 12) | 204,925 | 268,645 | 788,423 | 540,838 |
| Consulting fees | 185,459 | 322,752 | 359,793 | 413,111 |
| Accounting, audit and legal | 400,877 | 128,450 | 827,312 | 245,964 |
| Depreciation | 4,595 | 9,754 | 20,569 | 17,468 |
| Interest and bank charges | 3,946 | 1,456 | 5,627 | 2,955 |
| Foreign exchange loss (gain) | 70,713 | 2,169 | (9,549) | 28,766 |
| TOTAL EXPENSES | 1,418,181 | 1,520,519 | 3,105,987 | 2,513,306 |
| NET LOSS FROM CONTINUING OPERATIONS | (1,415,860) | (1,520,319) | (3,103,298) | (2,513,020) |
| NET LOSS FROM DISCONTINUED OPERATIONS (Note 2) | (97,692) | (180,068) | (376,170) | (436,356) |
| NET LOSS FOR THE PERIOD | (1,513,552) | (1,700,387) | (3,479,468) | (2,949,376) |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | | |
| Items that will be reclassified subsequently to income | | | | |
| Unrealized (loss) gain on investment (Note 7) | (71,747,864) | (3,418,821) | (124,177,607) | 78,874,257 |
| Deferred income tax recovery (expense) (Note 10) | 16,660,785 | 3,875,655 | 25,514,323 | (16,697,615) |
| TOTAL OTHER COMPREHENSIVE (LOSS) INCOME | (55,087,079) | 456,834 | (98,663,284) | 62,176,642 |
| NET COMPREHENSIVE (LOSS) INCOME | (56,600,631) | (1,243,553) | (102,142,752) | 59,227,266 |
| Loss per share | | | | |
| Basic | (0.00) | (0.01) | (0.01) | (0.01) |
| Diluted | (0.00) | (0.01) | (0.01) | (0.01) |
| Weighted-average number of shares outstanding | | | | |
| Basic | 631,627,389 | 303,080,459 | 617,258,829 | 295,517,924 |
| Diluted | 631,627,389 | 303,080,459 | 617,258,829 | 295,517,924 |

See accompanying notes to the unaudited condensed interim consolidated financial statements

CORNERSTONE CAPITAL RESOURCES INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

| | Number of shares | Share capital \$ | Warrants \$ | Contributed Surplus \$ | Accumulated other Comprehensive Income \$ | Deficit \$ | Total Shareholders' Equity \$ |
|--|---------------------|---------------------|----------------|------------------------------|---|---------------|--|
| Balance, December 31, 2016 | 287,090,996 | 40,041,836 | 3,099,038 | 10,069,549 | 63,917,143 | (50,343,000) | 66,784,566 |
| Total comprehensive loss for the period | - | - | - | - | 62,176,642 | (2,949,376) | 59,227,266 |
| Shares issued on exercise of stock options | 1,431,666 | 267,519 | - | (97,856) | - | - | 169,663 |
| Shares issued on exercise of warrants | 11,234,481 | 1,336,765 | (223,316) | - | - | - | 1,113,449 |
| Shares issued for property agreements | 324,324 | 120,000 | - | - | - | - | 120,000 |
| Shares issued for acquisition of marketable securities | 120,821,675 | 48,787,316 | - | - | - | - | 48,787,316 |
| Share-based payments | - | - | - | 540,838 | - | - | 540,838 |
| Share issue costs | - | (47,037) | - | - | - | - | (47,037) |
| Balance, June 30, 2017 | 420,903,142 | 90,506,399 | 2,875,722 | 10,512,531 | 126,093,785 | (53,292,376) | 176,696,061 |
| Total comprehensive loss for the period | - | - | - | - | (51,108,106) | (4,886,199) | (55,994,305) |
| Shares issued on exercise of stock options | 942,498 | 212,063 | - | (100,038) | - | - | 112,025 |
| Shares issued on exercise of warrants | 26,716,667 | 2,990,585 | (466,252) | - | - | - | 2,524,333 |
| Shares issued for acquisition of marketable securities | 140,957,201 | 57,281,633 | - | - | - | - | 57,281,633 |
| Share-based payments | - | - | - | 2,279,474 | - | - | 2,279,474 |
| Share issue costs | - | (50,056) | - | - | - | - | (50,056) |
| Balance, December 31, 2017 | 589,519,508 | 150,940,624 | 2,409,470 | 12,691,967 | 74,985,679 | (58,178,575) | 182,849,165 |
| Total comprehensive loss for the period | - | - | - | - | (98,663,284) | (3,479,468) | (102,142,752) |
| Shares issued in private placements | 41,000,000 | 7,958,000 | - | - | - | - | 7,958,000 |
| Shares issued on exercise of stock options | 775,001 | 97,634 | - | (21,800) | - | - | 75,834 |
| Shares issued on exercise of warrants | 1,174,842 | 75,093 | (16,351) | - | - | - | 58,742 |
| Share issue costs | - | (60,865) | - | - | - | - | (60,865) |
| Share-based payments | - | - | - | 788,423 | - | - | 788,423 |
| Balance, June 30, 2018 | 632,469,351 | 159,010,486 | 2,393,119 | 13,458,590 | (23,677,605) | (61,658,042) | 89,526,547 |

See accompanying notes to the unaudited condensed interim consolidated financial statements

CORNERSTONE CAPITAL RESOURCES INC.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

| | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|--------------------------------------|--------------------------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss from continuing operations for the period | (3,103,298) | (2,513,020) |
| Items not affecting cash: | | |
| Depreciation | 20,569 | 17,468 |
| Non-cash exploration expenditures | - | 120,000 |
| Interest and bank charges recognized in net loss | 5,627 | 2,955 |
| Interest income recognized in net loss | (16) | (369) |
| Unrealized (gain) loss on value of marketable securities | (2,673) | 83 |
| Share-based payments | 788,423 | 540,838 |
| Changes in non-cash operating working capital (Note 14) | 299,548 | (47,786) |
| Cashflows from operating activities — continuing operations | (1,991,820) | (1,879,831) |
| Cashflows from operating activities — discontinued operations | 379,704 | (434,014) |
| CASHFLOWS FROM OPERATING ACTIVITIES | (1,612,116) | (2,313,845) |
| INVESTING ACTIVITIES | | |
| Interest income received | 16 | 369 |
| Purchase of property and equipment | (8,672) | (136,529) |
| Cashflows from investing activities — continuing operations | (8,656) | (136,160) |
| Cashflows from investing activities — discontinued operations | - | - |
| CASHFLOWS FROM INVESTING ACTIVITIES | (8,656) | (136,160) |
| FINANCING ACTIVITIES | | |
| Interest and bank charges paid | (5,627) | (2,955) |
| Proceeds from exercise of stock options | 75,834 | 169,633 |
| Proceeds from exercise of warrants | 58,742 | 1,113,449 |
| Proceeds from issuance of share capital - net | 7,958,000 | - |
| Share issue costs | (60,865) | (47,037) |
| Cashflows from financing activities — continuing operations | 8,026,084 | 1,233,090 |
| Cashflows from financing activities — discontinued operations | - | - |
| CASHFLOWS FROM FINANCING ACTIVITIES | 8,026,084 | 1,233,090 |
| INCREASE (DECREASE) IN CASH | 6,405,312 | (1,216,915) |
| CASH, BEGINNING OF THE PERIOD | 809,530 | 2,627,882 |
| CASH, END OF THE PERIOD | 7,214,842 | 1,410,967 |
| LESS CASH OF DISCONTINUED OPERATIONS AT END OF PERIOD | 87,127 | 24,018 |
| CASH OF CONTINUING OPERATIONS, END OF THE PERIOD | 7,127,715 | 1,386,949 |

See accompanying notes to the unaudited condensed interim consolidated financial statements

CORNERSTONE CAPITAL RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018
(Expressed in Canadian Dollars)

1. DESCRIPTION OF BUSINESS

Cornerstone Capital Resources Inc. (“Cornerstone Capital” or the “Company”), is incorporated under the laws of Alberta, Canada and has its principal office in Ottawa, Ontario, Canada. The Company, through its wholly-owned subsidiaries, and its 15% holdings in Exploraciones Novomining S.A. (“ENSA”), is engaged in the evaluation, acquisition and exploration of mineral properties in Ecuador and Chile. The Company plans to ultimately develop the properties, bring them into production, option or lease the properties to third parties, or sell the properties outright. The Company has not determined whether these properties contain mineral reserves that are economically recoverable, and the Company is considered to be in the exploration stage.

These unaudited condensed interim consolidated financial statements (“financial statements”) for the three and six months ended June 30, 2018, were authorized for issuance by the Board of Directors of the Company on August 28, 2018.

2. PLAN OF ARRANGEMENT AND DISCONTINUED OPERATIONS

As at June 30, 2018, the Company was in the process of completing a strategic reorganization of Cornerstone Capital’s business through a statutory plan of arrangement (the “Arrangement”) under Section 288 of the Business Corporations Act (Alberta Business). Pursuant to the Arrangement, Cornerstone Capital will transfer its wholly owned subsidiaries that directly hold the Vetás Grande, Cana Brava, Bella Maria, Tioloma and Bramaderos concessions in Ecuador, the Miocene concessions in Chile, as well as applications for further concessions in Ecuador made by Cornerstone Capital prior to the Arrangement and will include \$5,750,000 in cash and cash equivalents to Cornerstone Exploration Inc. (“Cornerstone Exploration”) in exchange for common shares of Cornerstone Exploration (the “Cornerstone Exploration Common Shares”). Cornerstone Exploration will commence trading on the Toronto Venture Stock Exchange under the symbol “CEX” upon completion of the Arrangement. Shareholders of Cornerstone Capital will receive common shares of Cornerstone Exploration by way of a share exchange, in proportion to their shareholdings in Cornerstone Capital.

Under the Arrangement, each existing share of Cornerstone Capital would be exchanged for 0.05 of a “new” share of Cornerstone Capital, which will be renamed “Cascabel Gold and Copper Inc.”, and 0.005 Class B multiple voting shares and 0.005 Class A single voting shares of a Cornerstone Exploration. Option holders and warrant holders of Cornerstone Capital will receive replacement options and warrants of Cascabel Gold and Copper and options and warrants of Cornerstone Exploration which are proportionate to, and reflective of the terms of, their existing options and warrants of Cornerstone Capital. The exercise prices of the warrants and options will be determined in accordance with the Arrangement. The Arrangement was approved by the Supreme Court of Alberta and by Cornerstone Capital shareholders, as well as Cornerstone Capital option holders and warrant holders voting together as a single class. At the Special Meeting of Cornerstone Capital securityholders held on December 14, 2017, Cornerstone Capital shareholders also approved a Stock Option Plan for Cornerstone Exploration.

The assets and liabilities that will be transferred to Cornerstone Exploration were classified as discontinued operations and classified on the balance sheet as assets / liabilities held for spin-off (“Spin-off”). The discontinued operations include five entities to be transferred to Cornerstone Exploration pursuant to the Arrangement, Bellamaria Mining S.A., Vetásgrande Mining S.A., Canabrava Mining S.A., La Plata S.A., and Minería Cornerstone Chile Limitada. The Spin-off distribution will be accounted for at the carrying amount, without gain or loss, and will result in a reduction of shareholders’ equity.

Cornerstone Exploration is expected to enter into an Administrative Services Agreement with Cornerstone Capital, pursuant to which Cornerstone Capital will provide office space, furnishings and equipment, communications facilities and personnel necessary for Cornerstone Exploration to fulfill its basic day-to-day head office and executive responsibilities on a pro-rata cost-recovery basis.

CORNERSTONE CAPITAL RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018
(Expressed in Canadian Dollars)

2. PLAN OF ARRANGEMENT AND DISCONTINUED OPERATIONS (Continued)

The closing of the Arrangement will result in a spin-off of assets and liabilities being distributed to Cornerstone Exploration. As at June 30, 2018, the following is a summary of the assets and liabilities held for spin-off:

| | June 30, 2018 | December 31, 2017 |
|--|----------------------|-------------------|
| | \$ | \$ |
| Current assets | | |
| Cash | 87,127 | 245,349 |
| Receivables | 37,900 | 769,431 |
| Property and equipment | 92,653 | 18,397 |
| Total assets | 217,680 | 1,033,177 |
| Current liabilities | | |
| Trade payables and accrued liabilities | 35,610 | 18,078 |
| Net assets | 182,070 | 1,015,099 |

The net loss from the assets held for spin-off has been reclassified from net loss to discontinued operations as follows:

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 | Three months ended June 30, 2017 | Six months ended June 30, 2017 |
|--|---|---|--|--------------------------------------|
| PROJECT REVENUE | | | | |
| Project revenue | 42,285 | 92,773 | 125,497 | 125,497 |
| TOTAL PROJECT REVENUE | 42,285 | 92,773 | 125,497 | 125,497 |
| EXPENSES | | | | |
| Exploration and evaluation expenditures | (52,118) | 166,900 | 203,765 | 357,353 |
| General and administrative | 156,780 | 247,603 | 86,766 | 161,609 |
| Accounting, audit and legal | 22,028 | 40,574 | 12,632 | 38,629 |
| Depreciation | 5,882 | 6,811 | 1,171 | 2,342 |
| Foreign exchange loss | 7,405 | 7,055 | 1,231 | 1,920 |
| TOTAL EXPENSES | 139,977 | 468,943 | 305,565 | 561,853 |
| NET LOSS FROM DISCONTINUED OPERATIONS | (97,692) | (376,170) | (180,068) | (436,356) |

CORNERSTONE CAPITAL RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018
(Expressed in Canadian Dollars)

3. BASIS OF CONSOLIDATION AND PRESENTATION

Statement of Compliance

These financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting, (“IAS 34”), using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

The preparation of the financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgements in applying the Company’s accounting policies. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Basis of Consolidation and Presentation

The financial statements reflect the financial position, results of operations and cash flows of the Company and its subsidiaries. Cornerstone Capital is the ultimate parent company of the consolidated group. Subsidiaries are consolidated from the date on which the Company obtains control and continue to be consolidated until control ceases. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Where the ownership of a subsidiary is less than 100%, and a non-controlling interest thus exists, any losses of that subsidiary are attributed to the non-controlling interests even if that results in a deficit. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

An associate is an entity in which the Company or its subsidiaries have significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in, without having control over, the financial and operating policy decisions of the entity, and generally exists where between 20% and 50% of the voting power of the entity is held by the Company. As at June 30, 2018, and December 31, 2017, the Company did not have any associates. The Company’s indirect 15% interest in ENSA (held by Cornerstone Ecuador S.A. (“CESA”)) is being accounted for as an available-for-sale asset.

The subsidiaries of the Company at June 30, 2018, and their principal activities are described below:

| Name of subsidiary | Acronym | Place of incorporation | Ownership interest | To be spun out per the plan of arrangement | Principal activity |
|-----------------------------------|----------|------------------------|--------------------|--|--------------------|
| Cornerstone Exploration Inc. | CEX | Canada | 100% | Yes | Holding |
| Bellamaria Mining S.A. | BMSA | Ecuador | 100% | Yes | Exploration |
| Canabrava Mining S.A. | CMSA | Ecuador | 100% | Yes | Exploration |
| La Plata Minerales S.A | La Plata | Ecuador | 100% | Yes | Exploration |
| Exploaurum S.A. | EXSA | Ecuador | 100% | No | Exploration |
| Cornerstone Ecuador S.A. | CESA | Ecuador | 100% | No | Exploration |
| Vetasgrandes Mining S.A. | VMSA | Ecuador | 100% | Yes | Exploration |
| Minera Cornerstone Chile Limitada | MCCL | Chile | 100% | Yes | Exploration |

CORNERSTONE CAPITAL RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018
(Expressed in Canadian Dollars)

3. BASIS OF CONSOLIDATION AND PRESENTATION (Continued)

The financial statements of the Company have been prepared in accordance with IFRS on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company does not have any proven economically recoverable reserves, has a history of losses, and at June 30, 2018, the Company had an accumulated deficit of \$61,658,042 (December 31, 2017 - \$58,178,575) and has recorded a net comprehensive loss of \$102,142,752 (June 30, 2017 - \$1,243,553) and \$56,600,631 (June 30, 2017 – a gain of \$59,227,266) for the three and six months ended June 30, 2018, respectively. The success of the Company is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain financing to find and complete the development of such reserves, the ability of the Company to satisfy obligations as they come due and upon future profitable production from the properties or proceeds from disposition. The Company as at June 30, 2018, had cash balances available for continuing operations of \$7,127,715 (December 31, 2017 - \$564,181) and current liabilities of \$793,291 (December 31, 2017 - \$455,312). The Company currently does not expect to require additional financing to continue to pursue its exploration activities, and to meet its general and administrative costs for at least the next 12 months from the reporting period.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers, government licensing requirements or regulations, unregistered claims and non-compliance with regulatory, environmental and social licensing requirements, and may be affected by undetected defects. If the going concern assumption was not appropriate for these financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported net loss and the balance sheet classifications used.

Basis of measurement

These financial statements have been prepared on a historical cost basis, except for long-term investments and marketable securities classified as fair value through profit and loss, which are measured at fair value.

Functional currency and currency of presentation

The financial statements are presented in Canadian dollars which is also the functional currency of the Company and its subsidiaries.

4. SIGNIFICANT ACCOUNTING POLICIES

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

- *Property and equipment*

The Company reviews the estimated useful lives of property and equipment at the end of each reporting period to ensure assumptions are still valid as well as for indicators of impairment and makes judgments about the recoverable amounts.

CORNERSTONE CAPITAL RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018
(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Receivables*

The Company reviews its receivables on a regular basis and makes estimates of any amounts which are not expected to be collected. If such doubt exists, an allowance for doubtful accounts will be recorded.

- *Share-based payments*

The Company makes certain estimates and assumptions when calculating the fair values of stock options and warrants granted. The significant assumptions used include estimates of expected volatility, expected life and expected risk-free rate of return. Changes in these assumptions may result in a material change to the amount recorded for the issuance of stock options and warrants.

- *Fair value of investment in securities not quoted in an active market*

Where the fair values of financial assets and liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. Refer to notes 7 and 10 for further details.

5. FUTURE ACCOUNTING CHANGES

The following standards are effective for annual periods beginning after January 1, 2019, with earlier adoption permitted. The Company has not early adopted these standards and is currently assessing the impact they will have on the financial statements.

IFRS 9 - *Financial Instruments* - A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement* has been issued and is effective for annual periods beginning on or after January 1, 2019. The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and de-recognition.

IFRS 16 - *Leases* - The new standard replaces IAS 17 - *Leases* and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has low value. It will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been applied.

6. CAPITAL MANAGEMENT

The capital structure of the Company consists of equity comprised of share capital, warrants, reserves and deficit. The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral assets.

The properties in which the Company has or is earning an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. Subject to availability of funding, the Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis. The Company is not subject to externally imposed capital requirements.

CORNERSTONE CAPITAL RESOURCES INC.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018
(Expressed in Canadian Dollars)

6. CAPITAL MANAGEMENT (Continued)

The Company's capital management objectives, policies and processes have remained unchanged during the six months ended June 30, 2018 and the year ended December 31, 2017. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

7. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs that are quoted prices or similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – valuation techniques with significant unobservable market inputs.

Level 3 financial instruments

The value of the Company's 15% interest in ENSA is classified as an available-for-sale asset. The Company has a long-term investment in ENSA, which is a private company with no quoted price in active markets and has therefore been classified as a level 3 fair value measurement.

The following table presents the change in fair value measurements of financial instruments classified as Level 3 for the six months ended June 30, 2018, as well as the year ended December 31, 2017. These financial instruments are measured at fair value utilizing non-observable market inputs. The net realized losses and net realized gains are recognized in the other comprehensive income / (loss).

| | Six months ended June 30, 2018 | Year ended December 31, 2017 |
|-------------------------------|-----------------------------------|---------------------------------|
| Investments, fair value | | |
| Balance, beginning of period | \$ 125,757,292 | \$ 82,000,000 |
| Changes in valuation | (102,057,292) | 43,757,292 |
| Balance, end of period | \$ 23,700,000 | \$ 125,757,292 |

Within Level 3, the Company includes private company investments which are not quoted in an active market. The key assumptions used in the valuation of these instruments include (but are not limited to) the value at which a recent financing was done by the investee, company-specific information, trends in general market conditions and the share performance of comparable publicly-traded companies.

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7. FINANCIAL INSTRUMENTS (Continued)

As the valuation of investments for which market quotations are not readily available are inherently uncertain, the values may fluctuate materially within short periods of time and are based on estimates, and determinations of fair value may differ materially from values that would have resulted if a ready market existed for the investments.

The valuation of ENSA was based previously based on a modified market model using the trading price of the 85% owner of ENSA, SolGold Plc (“SolGold”). SolGold issued the Alpala Maiden Mineral Resource Estimate (“AMMRE”) and as a result Cornerstone management engaged an external expert to perform a valuation of the ENSA investment based on the indicated and inferred mineral resources in the AMMRE. This was estimated by observing the market capitalization of public companies that have identified copper resources in the same area and applying that market capitalization to the identified ore body in order to come up with a price per pound of the identified in situ ore body. The result was an in situ value of \$0.025 per pound of copper. This value was then subject to a marketability discount of 5% and an minority ownership discount of 15%. The model is most sensitive to the in situ price of copper as determined through analysis of the market capitalization of public companies with identified copper resources that operate in the same area.

As at June 30, 2018, a 10% increase/decrease in the situ price per pound of Copper would result in an increase/decrease in the fair value estimate of ENSA of approximately \$2.74 million keeping all other variables constant.

As at June 30, 2018, a change in the marketability discount of 5% (decrease to 0% or increase to 10%) would result in an increase/decrease in the fair value estimate of ENSA of approximately \$1.37 million keeping all other variables constant.

While this illustrates the overall effect of changing values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonable possible alternative assumptions may differ. The sensitivity analysis is intended to reflect the significant uncertainty inherent in the valuation of private investments under current market conditions, and the results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the estimated fair value of these investments. Furthermore, the analysis does not indicate a probability of changes occurring and it does not necessarily represent the Company’s view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

The following table presents the fair value, categorized by key valuation techniques and unobservable inputs used within Level 3 as at June 30, 2018, and December 31, 2017.

| Description | Period | Fair value (\$) | Valuation technique | Significant unobservable input(s) | Range of significant unobservable input(s) |
|--------------------|--------------------------|------------------------|----------------------------|--|---|
| ENSA | June 30, 2018 | 23,700,000 | Modified market approach | In situ value per pound of copper | 5%-10% discount |
| ENSA | December 31, 2017 | 125,757,292 | Modified market approach | Marketability of shares | 5%-10% discount |

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7. FINANCIAL INSTRUMENTS (Continued)

Management continues to believe that the modified market approach is the most appropriate approach in consideration of various factors including the volatility in the situ value per pound of copper.

The Company has no liabilities recorded at fair value on June 30, 2018, and December 31, 2017. The carrying value of the Company's liabilities approximates its fair value due to the short-term nature. The Company does not have any level 2 fair value measurements, and there have been no transfers between levels in 2018 and 2017.

| As at June 30, 2018 | Level 1 | Level 2 | Level 3 | Total financial assets at fair value |
|--|-------------------|----------|-------------------|--------------------------------------|
| Financial assets | \$ | \$ | \$ | \$ |
| Current Marketable securities | 2,094 | - | - | 2,094 |
| Non-current marketable securities | 64,659,247 | - | - | 64,659,247 |
| Long-term investment | - | - | 23,700,000 | 23,700,000 |
| | 64,661,341 | - | 23,700,000 | 88,361,341 |

* Refer to note 8 for further information on the marketable securities and note 10 for further information on long-term investments.

| As at December 31, 2017 | Level 1 | Level 2 | Level 3 | Total financial assets at fair value |
|--|-------------------|----------|--------------------|--------------------------------------|
| Financial assets | \$ | \$ | \$ | \$ |
| Current marketable securities | 2,141 | - | - | 2,141 |
| Non-Current marketable securities | 86,779,516 | - | - | 86,779,516 |
| Long-term investment | - | - | 125,757,292 | 125,757,292 |
| | 86,781,657 | - | 125,757,292 | 212,538,949 |

* Refer to note 8 for further information on the marketable securities and note 10 for further information on long-term investments.

Financial Risk Factors

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks, which are summarized below, are appropriately managed:

Credit risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its counterparties to fulfill their obligations on maturity periods or due to adverse market conditions. The Company's financial assets exposed to credit risk are primarily composed of cash, and accounts receivable (trade and other). Maximum exposure is equal to the carrying values of these assets. The Company's cash is held at several large financial institutions. Funds are kept in Canadian banks and transferred as needed to Ecuador and Chile, which have experienced political and economic stability for many years, and whose banking systems and standards for professional services are comparable to those in North America.

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7. FINANCIAL INSTRUMENTS (Continued)

The Company's high-grade receivables are with the Canadian government and other recognized, creditworthy third parties.

| As at June 30, 2018 | Neither past due nor impaired | | Past due or Individually impaired | Total |
|----------------------------------|----------------------------------|-------------------|---|------------------|
| | High grade | Standard grade | | |
| Cash and receivables: | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | 7,127,715 | – | – | 7,127,715 |
| Other receivables ⁽¹⁾ | 87,222 | – | – | 87,222 |
| | <u>7,214,937</u> | <u>–</u> | <u>–</u> | <u>7,214,937</u> |

(1) Other receivables exclude sales tax receivable of \$64,682.

| As at December 31, 2017 | Neither past due nor impaired | | Past due or Individually impaired | Total |
|----------------------------------|----------------------------------|-------------------|---|----------------|
| | High grade | Standard grade | | |
| Cash and receivables: | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | 564,181 | – | – | 564,181 |
| Other receivables ⁽¹⁾ | 55,851 | – | – | 55,851 |
| | <u>620,032</u> | <u>–</u> | <u>–</u> | <u>620,032</u> |

(1) Other receivables exclude sales tax receivable of \$72,277.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As at June 30, 2018, the Company had a cash balance of \$7,127,715 (December 31, 2017 - \$564,181) to settle current liabilities of \$793,291 (December 31, 2017 - \$455,312). To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board of Directors considers securing additional funds through equity or partnering transactions. All the Company's financial liabilities are normally paid within 30 days and are subject to normal trade terms. The Company has no source of operating cash flow to fund its exploration and development projects. Funding for projects requires equity or debt financing. The Company has limited financial resources and there is no assurance that funding will always be available to allow the Company to fulfill its obligations on existing or future exploration projects.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and equity prices will affect the Company's income or the value of its financial instruments.

Interest rate risk – As at June 30, 2018, and December 31, 2017, the Company does not have any cash balances subject to interest rate risk. The Company's current policy is to invest excess cash in interest bearing deposit accounts or guaranteed investment securities with its financial institutions.

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.

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7. FINANCIAL INSTRUMENTS (Continued)

The Company monitors commodity prices of gold, copper and other metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company believes that both commodity and equity price movements can have a substantial effect on the market value of the Company's investments. Such price movements are monitored by the Company.

Foreign exchange risk - The Company transacts business in U.S. dollars, the currency of Ecuador, and therefore is subject to foreign exchange risk on U.S. dollar receivables, trade payables and cash balances. The Company attempts to mitigate these risks by managing its U.S. dollar inflows and outflows. No hedging instruments have been used by the Company, however, depending upon the nature and level of future foreign exchange transactions, consideration may be given to the use of hedging instruments. The Company believes that it adequately manages its foreign exchange risk, and the risk is minimal. The following table shows the net exposures in USD dollars.

| | June 30, 2018 (USD) (\$) | December 31, 2017 (USD) (\$) |
|--|---|---------------------------------|
| Cash | 1,397,042 | 95,078 |
| Receivables | 28,000 | 44,600 |
| Trade payables and accrued liabilities | (98,413) | (70,892) |
| Net US dollar exposure presented | 1,326,629 | 68,786 |

Based upon the above net exposures to US dollars, as at June 30, 2018, a 10% change in the value of the US dollar to the Canadian dollar exchange rate would impact the Company's net loss by approximately \$132,663 (December 31, 2017 - \$6,878).

Sensitivity analysis

As at June 30, 2018, the Company has an equity investment in Rambler Metals and Mining, which is listed on TSX Venture Exchange and the Alternative Investment Market ("AIM") on the London Stock Exchange, and SolGold Plc, which is listed on Toronto Stock Exchange and AIM.

A 20% change in value of these investments as at June 30, 2018, would result in an increase or decrease in net comprehensive income and the carrying value of the investments of \$12,931,850.

The carrying amount of cash, receivables, trade payables and accrued liabilities approximate fair value due to their short-term nature.

8. MARKETABLE SECURITIES

The Company has not purchased shares of publicly listed companies on the open market. The current marketable securities were acquired through prior years option agreements. The listed shares below trade on TSX Venture Exchange and Toronto Stock Exchange. Market values of the investments are as follows:

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8. MARKETABLE SECURITIES (Continued)

Current marketable securities

| | June 30, 2018 | December 31, 2017 |
|---------------------------|----------------------|-------------------|
| | \$ | \$ |
| Rambler Metals and Mining | <u>2,094</u> | <u>2,141</u> |

There were no sales of marketable securities during the three and six months ended June 30, 2018 and the year ended December 31, 2017.

Non-current marketable securities

The following marketable securities were acquired by the Company as a long-term strategic investment and have been classified as non-current marketable securities:

| | June 30, 2018 | December 31, 2017 |
|-------------|----------------------|-------------------|
| | \$ | \$ |
| SolGold Plc | <u>64,659,247</u> | <u>86,779,516</u> |

On June 27, 2017, the Company acquired 78,212,500 ordinary shares of SolGold plc from multiple non-arm's length parties, in exchange for 120,821,675 common shares of Cornerstone. The acquisition of the SolGold shares was initially recorded at \$48,787,316, which was the fair market value of the SolGold shares at the date of acquisition.

On July 4, 2017, the Company acquired an additional 91,943,914 ordinary shares of SolGold plc from multiple parties in exchange for 140,957,200 common shares of Cornerstone. The acquisition of the SolGold shares was initially recorded at \$57,281,633, which was the fair market value of the SolGold shares at the date of acquisition.

9. RECEIVABLES

| | June 30, 2018 | December 31, 2017 |
|----------------------|--------------------------|----------------------|
| | \$ | \$ |
| Sales tax receivable | 64,682 | 72,277 |
| Other receivables | 87,222 | 55,851 |
| Total receivables | <u>151,904</u> | <u>128,128</u> |

During the three and six months ended June 30, 2018, the Company incurred exploration expenditures on its Bramaderos property which were charged back to its exploration partner Sunstone Metals Ltd (note 11). As at June 30, 2018, the Company, through its assets held for spin-off, has a receivable of \$Nil (December 31, 2017 - \$769,711) relating to its exploration partner.

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10. LONG TERM INVESTMENTS

As at June 30, 2018, SolGold is the registered shareholder of an 85% interest in ENSA. Subject to the satisfaction of certain conditions, including SolGold's fully funding the project through to feasibility, SolGold Plc will own 85% of the equity of ENSA and Cornerstone will own the remaining 15% of ENSA. SolGold Plc is funding 100% of the exploration at the Cascabel property, which is held by ENSA, up to completion and delivery of a feasibility study, and is the operator of the project.

Upon completion and delivery of a feasibility study, Cornerstone and SolGold shall jointly fund the activities of ENSA based on their proportionate interest. To the extent that either Cornerstone or SolGold fail to fund their proportionate interest, that party will have its ownership in ENSA diluted.

As a result of SolGold funding 100% of the activities in ENSA up to completion and delivery of a feasibility study, SolGold shall receive 90% of any distribution of earnings or dividends from ENSA or the Cascabel property that would otherwise be due to Cornerstone until such time as the amount received by SolGold through such payments equals Cornerstone's proportionate share of the expenditures incurred by SolGold from the date it earned its 85% interest until the time of completion and delivery of the feasibility study plus annual interest of LIBOR +2%.

As at June 30, 2018, the estimated value of the long-term investment in ENSA was \$23,700,000 (December 31, 2017 - \$125,757,292). Refer to note 7 for details on the valuation of the investment in ENSA. As at June 30, 2018, the estimated deferred income tax liability related to the long-term investment in ENSA was \$5,925,000 (December 31, 2017 - \$31,439,323).

11. EXPLORATION AND EVALUATION EXPENDITURES

As at June 30, 2018, the Company holds several mineral concessions in Ecuador (excluding the concessions held by ENSA). A summary of exploration and evaluation expenditures is as follows:

| Geographical Area | Three and six months ended | | | |
|--------------------------|--|---|--|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | Exploration and Evaluation expenditures | Exploration and Evaluation expenditures | Exploration and Evaluation expenditures | Exploration and Evaluation expenditures |
| | \$ | \$ | \$ | \$ |
| Ecuador | 235,277 | 431,360 | 499,549 | 555,903 |

The exploration and evaluation expenditures from the spin out of the subsidiaries, pursuant to the Arrangement, has been reclassified from exploration and evaluation expenditures to discontinued operations as follows:

| Geographical Area | Three and six months ended | | | |
|--------------------------|--|---|--|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | Exploration and Evaluation expenditures | Exploration and Evaluation expenditures | Exploration and Evaluation expenditures | Exploration and Evaluation expenditures |
| | \$ | \$ | \$ | \$ |
| Ecuador | (54,597) | 33,498 | 103,804 | 92,509 |
| Chile | 3,379 | 133,402 | 99,961 | 264,844 |
| | (51,218) | 166,900 | 203,765 | 357,353 |

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11. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Exploration expenditures included in the discontinued operations incurred in Ecuador for the three and six months ended June 30, 2018, have been reduced by \$470,266 (June 30, 2017 – \$Nil) and \$940,800 (June 30, 2017 – \$Nil), respectively, which was charged to the Company’s exploration partner.

On April 4, 2017, the Company entered into an option agreement with Sunstone Metals Ltd. (formerly “Avalon Minerals Ltd.”) (“Sunstone”) to acquire up to a 51% undivided interest in the Company’s wholly-owned Bramaderos property. To acquire the 51% interest Sunstone is required to 1) make a US \$50,000 payment (received) to the Company upon signing the option agreement, 2) Incur US \$1,500,000 (incurred) of exploration expenditures on the property by April 4, 2018, 3) Incur an additional US \$1,900,000 of exploration expenditures on the property by April 4, 2020. The Bramaderos property is included in the assets to be spin out on completion of the Arrangement (Note 2).

As at June 30, 2018, Sunstone has incurred \$1,880,348 (US\$1,549,415) of exploration expenditures on the Bramaderos property. As at June 30, 2018, Sunstone has not yet acquired its initial interest in the Bramaderos property.

12. SHAREHOLDERS’ EQUITY

A) Share Capital

Authorized

An unlimited number of common shares with no par value.

Issued and outstanding

| | June 30, 2018 | | December 31, 2017 | |
|----------------------|---------------------|--------------------|---------------------|-------------|
| | Number of Shares | \$ | Number of Shares | \$ |
| <i>Common shares</i> | 632,469,351 | 159,010,486 | 589,519,508 | 150,940,624 |

2018 issuances

On March 2, 2018, the Company completed a financing consisting of the issuance of 41,000,000 common shares at \$0.20 per share for proceeds of \$8,200,000. A total of \$252,000 in finder’s fees were paid by Cornerstone in connection with the private placement.

During the six months ended June 30, 2018, 775,001 stock options were exercised for gross proceeds of \$75,834. The stock options had an average exercise price of \$0.098 per option and expiring up to November 15, 2021. As a result of the exercise of the stock options a total of \$21,800 was transferred from contributed surplus to share capital.

During the six months ended June 30, 2018, 1,174,842 warrants were exercised for gross proceeds of \$58,742. The warrants had an exercise price of \$0.05 per warrant and expired on May 12, 2018. As a result of the exercise of the warrants a total of \$16,351 was transferred from warrants to share capital.

2017 issuances

During the year ended December 31, 2017, 37,951,148 warrants were exercised for gross proceeds of \$3,637,782. The warrants had an average exercise price of \$0.10 and would have expired between April 2019 and May 2021. As a result of the exercise of the warrants a total of \$689,568 was transferred from warrants to share capital.

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12. SHAREHOLDERS' EQUITY (Continued)

During the year ended December 31, 2017, 2,374,164 options with an average exercise price of \$0.119 and expiry dates between January 13, 2017 and November 15, 2021, were exercised for gross proceeds of \$281,688. As a result of the exercise of the stock options a total of \$197,894 was transferred from contributed surplus to share capital.

On April 27, 2017, the Company issued 324,324 common shares, with a value of \$120,000, and made a cash payment of \$120,000 in regards to the Miocene gold-silver-copper project in Chile.

On June 27, 2017, the Company acquired 78,212,500 ordinary shares of SolGold plc from multiple non-arm's length parties, in exchange for 120,821,675 common shares of Cornerstone. The acquisition of the SolGold shares was initially recorded at \$48,787,316, which was the fair market value of the SolGold shares at the date of acquisition.

On July 4, 2017, the Company acquired an additional 91,943,914 ordinary shares of SolGold plc from multiple parties in exchange for 140,957,200 common shares of Cornerstone. The acquisition of the SolGold shares was initially recorded at \$57,281,633, which was the fair market value of the SolGold shares at the date of acquisition.

Preferred shares

The first and second preferred shares which have been authorized may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series. No first or second preferred shares have been issued.

B) Stock options

The Company has an equity settled stock option plan under which options to purchase common shares in the Company may be granted to directors, officers, key employees and consultants of the Company.

There were no stock options granted in the three and six months ended June 30, 2018.

During the three and six months ended June 30, 2018, the Company realized and recorded as an expense in the profit or loss of \$204,925 (June 30, 2017 - \$268,645) and \$788,423 (June 30, 2017 - \$540,838) relating to stock options which vested in the current period.

2017 Stock option grants

On January 1, 2017, the Company issued 450,000 stock options to directors, officers and consultants of the company which are exercisable at \$0.16 until June 23, 2018. The stock options vest in three tranches with 150,000 options vesting on grant, 150,000 vesting nine months after grant and 150,000 vesting eighteen months after grant. The stock options have a Black-Scholes option pricing value of \$42,021. Only options vested during the year have been realized and recorded as an expense in the profit or loss.

On July 12, 2017, the Company issued 7,500,000 stock options to directors, officers and consultants of the company which are exercisable at \$0.475 until July 12, 2022. The stock options vest in three tranches with 2,500,000 options vesting on grant, 2,500,000 vesting nine months after grant and 2,500,000 vesting eighteen months after grant. The stock options have a Black-Scholes option pricing value of \$2,988,000. Only options vested during the year have been realized and recorded as an expense in the profit or loss.

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12. SHAREHOLDERS' EQUITY (Continued)

The fair values of options granted during the year ended December 31, 2017, were estimated using the Black-Scholes option pricing model with the following weighted average assumption:

| | <u>January 2017</u> | <u>July 2017</u> |
|---|---------------------|------------------|
| Average share price at date of grant | \$0.16 | \$0.475 |
| Expected dividend yield | 0.00% | 0.00% |
| Expected share price volatility | 132% | 123% |
| Risk-free interest rate | 0.76% | 1.58% |
| Forfeiture rate | 0% | 0% |
| Expected life of options | 1.5 years | 5 years |
| Average exercise price at date of grant | \$0.16 | \$0.475 |
| Stock options granted | 450,000 | 7,500,000 |
| Black-Scholes fair value | \$0.09338 | \$0.3984 |

Details of the activity of the stock option plan are as follows:

| | For the six months ended June 30, 2018 | | For the year ended December 31, 2017 | |
|--|---|---|---|---|
| | Number | Weighted- Average Exercise Price | Number | Weighted -Average Exercise Price |
| | | \$ | | \$ |
| Balance, beginning of the Period | 28,366,002 | 0.17 | 24,041,664 | 0.13 |
| Granted during the period | | | | |
| To employees, officers, directors and consultants | - | - | 7,950,000 | 0.46 |
| Exercised during the period | (775,001) | 0.098 | (2,374,164) | 0.119 |
| Expired | (447,500) | 0.15 | (683,331) | 0.14 |
| Forfeited or cancelled during the period | - | - | (2,670,000) | 0.37 |
| Balance, end of period | 27,143,501 | 0.23 | 28,366,002 | 0.22 |
| Exercisable, end of period | 24,643,501 | 0.20 | 19,503,502 | 0.17 |

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12. SHAREHOLDERS' EQUITY (Continued)

The following table summarizes information about stock options outstanding and exercisable at June 30, 2018.

| Expiry date | Grant date | Exercise price | Options outstanding | Contractual Life (years) | Options vested | Options unvested | Years remaining to maturity |
|-------------|------------|----------------|---------------------|--------------------------|-------------------|------------------|-----------------------------|
| 05-Mar-19 | 05-Mar-14 | \$0.19 | 3,400,000 | 5 | 3,400,000 | - | 0.68 |
| 29-Jan-20 | 29-Jan-15 | \$0.10 | 1,843,500 | 5 | 1,843,500 | - | 1.58 |
| 04-Jun-20 | 04-Jun-15 | \$0.10 | 50,000 | 5 | 50,000 | - | 1.93 |
| 14-Jun-21 | 14-Jun-16 | \$0.05 | 2,633,334 | 5 | 2,633,334 | - | 2.96 |
| 08-Aug-21 | 09-Aug-16 | \$0.11 | 2,850,000 | 5 | 2,850,000 | - | 3.38 |
| 15-Nov-21 | 15-Nov-16 | \$0.15 | 8,866,667 | 5 | 8,866,667 | - | 3.11 |
| 12-Jul-22 | 12-Jul-17 | \$0.475 | 7,500,000 | 5 | 5,000,000 | 2,500,000 | 4.04 |
| | | | 27,143,501 | | 24,643,501 | 2,500,000 | |

C) Warrants

Warrants have been issued by the Company in the course of issuing shares. Warrants are valued using the Black Scholes option-pricing model.

For the six months ended June 30, 2018

| | Number | Fair Value \$ | Weighted-Average Price \$ |
|----------------------------------|--------------------|------------------|---------------------------------|
| Balance, beginning of the period | 86,289,811 | 2,409,470 | 0.17 |
| Exercised | (1,174,842) | (16,351) | (0.05) |
| Balance, end of the period | 85,114,969 | 2,393,119 | 0.18 |

For the year ended December 31, 2017

| | Number | Fair Value \$ | Weighted-Average Price \$ |
|--------------------------------|---------------------|------------------|---------------------------------|
| Balance, beginning of the year | 124,240,959 | 3,099,038 | 0.15 |
| Exercised | (37,951,148) | (689,568) | (0.09) |
| Balance, end of the year | 86,289,811 | 2,409,470 | 0.17 |

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12. SHAREHOLDERS' EQUITY (Continued)

| Number of warrants | Carrying Value | Exercise price | Expiry date |
|-----------------------|----------------|----------------|---------------|
| | \$ | \$ | |
| 26,600,000 | 1,221,405 | 0.35 | April 7, 2019 |
| 1,808,450 | 119,956 | 0.20 | April 7, 2019 |
| 56,706,519 | 1,051,758 | 0.10 | May 12, 2021 |
| 85,114,969 | | | |

D) Loss per share

During the six months ended June 30, 2018, 85,114,969 warrants (June 30, 2017 – 113,006,478) and 27,143,501 options (June 30, 2017 – 21,652,000) were excluded from the computation of diluted loss per share as they were anti-dilutive.

13. RELATED PARTY TRANSACTIONS

The following represents a summary of transactions with parties under common control and shareholders for the three and six months ended June 30, 2018 and 2017. The amounts are expensed as professional and administrative charges.

Brooke Macdonald, who serves as the Company's President and CEO, provided the Company with management consulting services. During the three and six months ended June 30, 2018, Mr. Macdonald billed a total of \$78,346 (2017 - \$235,926) and \$154,180 (2017 - \$279,388) respectively. The Company may terminate the contract without cause by paying the President and CEO 24 months' salary at any time.

Sabino Di Paola, who serves as the CFO and Corporate Secretary for the Company, provided the Company with management consulting services. During the three and six months ended June 30, 2018, Mr. Di Paola billed a total of \$45,000 (2017 - \$49,700) and \$84,000 (2017 - \$75,100) respectively, for accounting and management consulting services. The Company may terminate the contract without cause by paying the CFO a lump sum equal to \$75,000.

Dave Loveys, who serves as a Director and consultant for the Company, provided the Company with management consulting services. During the three and six months ended June 30, 2018, Mr. Loveys billed a total of \$7,613 (2017 - \$Nil) and \$7,613 (2017 - \$Nil) respectively.

During the three and six months ended June 30, 2018, non-management directors of the Company were paid/accrued stipends of \$32,500 (2017 - \$32,500) and \$65,000 (2017 - \$65,000) respectively.

Compensation for the three and six months ended June 30, 2018, for key management personnel, not included above, is \$275,849 (2017 - \$362,411) and \$924,343 (2017 - \$699,103) respectively, which includes salary and other short-term benefits of \$78,246 (2017 - \$132,757) and \$160,718 (2017 - \$217,522) respectively, and share-based payments of \$197,603 (2017 - \$229,654) and \$763,625 (2017 - \$481,581) respectively. These amounts include salary and benefits for the Company's Vice President, Exploration, group insurances for all management and share based payments for all management and directors.

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14. SUPPLEMENTAL CASH FLOW INFORMATION

| | Six months ended June 30, | |
|---|----------------------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Changes in non-cash operating working capital | | |
| (Increase) in receivables | (23,776) | (8,234) |
| (Increase) in prepaid expenses | (10,842) | (16,724) |
| Increase (decrease) in trade payables and accrued liabilities | 334,166 | (22,828) |
| | 299,548 | (47,786) |

During the six months ended June 30, 2018, the value of the share-based payments and warrants exercised were \$21,800 (2017 - \$97,856) and \$16,351 (2017 - \$223,316) respectively.

15. SEGMENT REPORTING

The Company has one reportable operating segment being that of acquisition, exploration and evaluation activities. The Company has the following non-current assets located in Canada and Ecuador:

| | June 30, 2018 | December 31, 2017 |
|-------------------------------|----------------------|--------------------------|
| | \$ | \$ |
| Ecuador | | |
| Property, plant and equipment | 182,788 | 286,797 |
| Long-term investment | 23,700,000 | 125,757,292 |
| Canada | | |
| Marketable securities | 64,659,247 | 86,779,516 |
| | 88,542,035 | 212,823,605 |

All Ecuador exploration mineral claims are held by the Company's Ecuador subsidiaries with all costs incurred in the subsidiaries expensed to exploration and evaluation expenditures on the statement of operations. The Company's long-term investment is in an entity with mineral property interests in Ecuador.

The Company has \$92,653 (December 31, 2017 - \$18,397) of property and equipment in Chile and Ecuador that has been reclassified as non-current assets held for spin-off (Note 2).

16. CONTINGENCIES

There are three claims for alleged non-payment of annual mineral concession fees in Ecuador (relating to the relinquished Shyri SE, Shyri NE, and Rodeo concessions), payment of which CESA contends would have become due only after it formally relinquished the concessions and turned them back to the government following the 2008 Mining Moratorium in Ecuador when CESA was prohibited by law from working on the concessions. Shyri SE and Rodeo are in the 1st District Administrative Court in Quito, and Shyri NE case is in the Supreme Court. Shyri SE, Rodeo and Shyri NE do not in the aggregate amount to a material sum even if found due and owing in a final unappealable hearing or judgment, and the Company's lawyers in Quito at Tobar ZVS are monitoring the cases and hope to eventually resolve all of them to the satisfaction of CESA, although they cannot guarantee any result.

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16. CONTINGENCIES (Continued)

There is one administrative claim by the Ministry of Environment (ME) for the cost of remediating some moderate environmental disturbance, which the Company maintains was caused by illegal miners trespassing on CESA's La Rinconada concession. CESA contends that it formally notified the ME immediately upon becoming aware of the presence of the illegal miners and that the damages were done following the giving such notice. At the present time the Company's Ecuadorean legal counsel believes that the Company's claim has enough merit to be successful in the Court, although they cannot guarantee any result.

17. COMMITMENTS

See note 13 for the commitments under agreements with the management.

18. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.