



**Unaudited Condensed Interim  
Consolidated Financial Statements  
September 30, 2019**

**STAR DIAMOND CORPORATION**  
**Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended**  
**September 30 2019**

Notice to Reader

Management has compiled the unaudited condensed interim consolidated financial statements of Star Diamond Corporation for the three and nine months ended September 30, 2019. The Corporation's external auditors have not reviewed these condensed interim consolidated financial statements.

**Star Diamond Corporation**  
**Condensed Consolidated Statements of Financial Position**  
(unaudited)

(Cdn\$ in thousands)	September 30, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,298	\$ 2,808
Receivables	153	23
Prepays	81	52
	<u>3,532</u>	<u>2,883</u>
Restricted cash (note 6)	622	622
Investment in Wescan Goldfields Inc. (note 7)	203	232
Property and equipment	529	308
Exploration and evaluation assets (note 8)	66,344	66,344
	<u>\$ 71,230</u>	<u>\$ 70,389</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 139	\$ 267
	<u>139</u>	<u>267</u>
Lease liability (note 5)	270	-
Environmental rehabilitation provision	618	611
Contingent consideration (note 8)	730	730
Shareholders' equity:		
Share capital	841,880	838,014
Warrants	224	560
Broker warrants	13	13
Contributed surplus	33,575	33,210
Accumulated deficit	(806,219)	(803,016)
	<u>69,473</u>	<u>68,781</u>
	<u>\$ 71,230</u>	<u>\$ 70,389</u>

See accompanying notes to consolidated financial statements

**Star Diamond Corporation**  
**Condensed Consolidated Statements of Loss and Comprehensive Loss**  
(unaudited)

(Cdn\$ in thousands, except for share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Income</b>				
Interest and other income	\$ 30	\$ 17	\$ 65	\$ 108
<b>Expenses</b>				
Administration	344	423	1,737	1,797
Consulting and professional fees	29	47	75	194
Corporate development	42	10	111	40
Exploration and evaluation (note 9)	405	472	1,316	1,695
	<u>820</u>	<u>952</u>	<u>3,239</u>	<u>3,726</u>
<b>Loss before the under noted items</b>	(790)	(935)	(3,174)	(3,618)
Flow-through share premium	-	54	-	174
Investment in Wescan Goldfields Inc. (note 7)	-	(116)	(29)	(58)
<b>Net and comprehensive loss for the period</b>	<u>\$ (790)</u>	<u>\$ (997)</u>	<u>\$ (3,203)</u>	<u>\$ (3,502)</u>
<b>Net loss per share</b>				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
<b>Weighted average number of shares outstanding (000's)</b>	407,772	383,482	398,788	381,429

See accompanying notes to consolidated financial statements

**Star Diamond Corporation**  
**Condensed Consolidated Statements of Cash Flows**  
(unaudited)

(Cdn\$ in thousands)	Nine Months Ended September 30,	
	2019	2018
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net loss	\$ (3,203)	\$ (3,502)
Adjustments:		
Depreciation on property and equipment	81	41
Loss (gain) on disposal of property and equipment	8	(4)
Investment in Wescan Goldfields Inc.	29	58
Fair value of share-based payments expensed	1,166	1,274
Unwinding of discount for environmental rehabilitation provision	7	9
Unwinding of discount and changes to lease liability	11	-
Flow-through share premium	-	(174)
Net change in non-cash operating working capital items:		
Receivables	(130)	117
Prepays	(29)	(64)
Accounts payable and accrued liabilities	(128)	(176)
	(2,188)	(2,421)
<b>Investing:</b>		
Proceeds from disposal of property and equipment	-	25
Purchases of property and equipment	-	(108)
	-	(83)
<b>Financing:</b>		
Other issuances (warrants and options)	2,729	80
Lease liability	(51)	-
	2,678	80
<b>Increase (decrease) in cash and cash equivalents</b>	490	(2,424)
<b>Cash and cash equivalents, beginning of period</b>	2,808	4,019
<b>Cash and cash equivalents, end of period</b>	\$ 3,298	\$ 1,595
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 3,298	\$ 1,595
	\$ 3,298	\$ 1,595

See accompanying notes to consolidated financial statements

**Star Diamond Corporation**  
**Condensed Consolidated Statements of Changes in Equity**  
(unaudited)

(Cdn\$ in thousands)	Nine Months Ended September 30,		Year Ended December 31,
	2019	2018	2018
<b>Share capital</b>			
Balance, beginning of period	\$ 838,014	\$ 834,895	\$ 834,895
Shares issued (note 10)	3,866	1,177	3,119
Balance, end of period	<u>\$ 841,880</u>	<u>\$ 836,072</u>	<u>\$ 838,014</u>
<b>Warrants</b>			
Balance, beginning of period	\$ 560	\$ 1,061	\$ 1,061
Exercised	(336)	-	(122)
Expired	-	(379)	(379)
Balance, end of period	<u>\$ 224</u>	<u>\$ 682</u>	<u>\$ 560</u>
<b>Broker warrants</b>			
Balance, beginning of period	\$ 13	\$ 21	\$ 21
Issued	-	-	13
Exercised	-	-	(21)
Balance, end of period	<u>\$ 13</u>	<u>\$ 21</u>	<u>\$ 13</u>
<b>Contributed surplus</b>			
Balance, beginning of period	\$ 33,210	\$ 32,452	\$ 32,452
Share-based payments - options (note 11)	803	195	203
Share-based payments - deferred share units (note 11)	13	65	65
Share-based payments - restricted share units (note 11)	350	1,014	1,227
Options exercised	(136)	(55)	(74)
Restricted share unit redemptions	(665)	(913)	(913)
Deferred share unit redemptions	-	(129)	(129)
Expired warrants	-	379	379
Balance, end of period	<u>\$ 33,575</u>	<u>\$ 33,008</u>	<u>\$ 33,210</u>
<b>Accumulated deficit</b>			
Balance, beginning of period	(803,016)	(798,725)	(798,725)
Impact of adoption of IFRS 9 (note 7)	-	290	290
Loss for the period	(3,203)	(3,502)	(4,581)
Balance, end of period	<u>\$ (806,219)</u>	<u>\$ (801,937)</u>	<u>\$ (803,016)</u>
<b>Accumulated other comprehensive loss</b>			
Balance, beginning of period	\$ -	\$ 290	\$ 290
Impact of adoption of IFRS 9 (note 7)	-	(290)	(290)
Balance, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total equity</b>	<u>\$ 69,473</u>	<u>\$ 67,846</u>	<u>\$ 68,781</u>

See accompanying notes to consolidated financial statements

# STAR DIAMOND CORPORATION

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019

(In thousands of Canadian dollars except as otherwise noted)

## 1. Corporate Information

Star Diamond Corporation (the "Company") was incorporated under the Canada Business Corporations Act on April 29, 1985 and its shares are publicly traded on the Toronto Stock Exchange. The principal activities of the Company are the exploration, development and production of diamonds. The Company is located at 600 – 224 4<sup>th</sup> Avenue South, Saskatoon, Saskatchewan, Canada.

## 2. Basis of preparation

The condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2019 were authorized for issue by the Company's Audit Committee on November 7, 2019. The condensed interim consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The Company's financial statements have been prepared on a historical cost basis, except as disclosed, using the Company's functional currency of Canadian dollars.

In preparing the financial statements for the period ended September 30, 2019, significant judgments and estimations have been made by management in applying the Company's accounting policies. In particular, the significant areas of judgment and estimation uncertainty considered by management in preparing the consolidated financial statements are: joint control assessments, identification of cash generating units, exploration and evaluation expenditures, reserve and resource estimation, asset valuations and assessments for impairment, estimations for environmental rehabilitation provisions, share-based payment transactions and recovery of deferred tax assets. These are discussed in more detail in note 5 of the Company's consolidated financial statements for the year ended December 31, 2018.

## 3. Going Concern

These financial statements are prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that cast significant doubt upon the Company's ability to continue as a going concern. At September 30, 2019, the Company had working capital of \$3.4 million, of which \$0.3 million is committed to be spent on qualifying exploration expenditures before December 31, 2019, leaving \$3.1 million to finance operating activities through its 2019 fiscal year. The ability of the Company to continue as a going concern and fund general and administrative expenses in an orderly manner will require further equity issues or other forms of financings. There is no assurance that the Company will be successful in obtaining required financing at an acceptable cost as and when needed or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone exploration and/or evaluation plans, forfeit rights in its properties or reduce or terminate its operations.

These financial statements do not include any adjustments to carrying values of assets and liabilities, reported expense and the statement of financial position classifications used, that would be necessary if the going concern assumption were not appropriate.

## 4. Summary of significant accounting policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those disclosed in note 4 of the Company's consolidated financial statements for the year ended December 31, 2018, except as noted below. Accordingly, the condensed interim

consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018.

## 5. IFRS standards, amendments and interpretations

### (a) New IFRS standards, amendments and interpretations effective during the period

At the date of authorization of these consolidated financial statements, the IASB has issued the following new standard which became effective for the reporting period.

#### i. IFRS 16 – Leases

IFRS 16 replaces IAS 17, “Leases” and related interpretations effective for annual periods commencing on or after January 1, 2019. IFRS 16 follows a ‘right-of-use’ model which requires most leases to be reported on an entity’s financial statements as assets and liabilities, eliminating the former dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases.

#### *Implementation:*

The Company adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives were not restated and a cumulative catch up adjustment would be recorded on January 1, 2019 for any differences identified. In addition, the Company applied recognition exemptions in IFRS 16 for ‘low value’ leases and leases that end within twelve months of the date of initial application, and account for them as low value and short-term leases, respectively. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company’s incremental borrowing rate as at January 1, 2019. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings.

The Company analyzed its contracts to identify whether they are, or contain, a lease arrangement for the application of IFRS 16. This analysis identified contracts that will have an equivalent increase to both the Company’s right-of-use assets and lease liabilities. As a result, upon adoption, the Company recognized lease liability and right-of-use assets of approximately \$310 thousand, with no impact on retained earnings.

There are no other IFRSs or IFRIC interpretations that have been issued and are not yet effective that would be expected to have a material impact on the Company.

## 6. Restricted Cash

At September 30, 2019, the Company has pledged \$622 thousand (December 31, 2018 – \$622 thousand) in short-term investments as security for letters of credit provided, which relate to the provision for decommissioning and rehabilitation. These short-term investments are recorded as restricted cash.

## 7. Investment in Wescan Goldfields Inc.

At September 30, 2019, the Company held 5,806,634 shares or 12.9% (December 31, 2018 – 5,806,634 shares) of Wescan Goldfields Inc. (“Wescan”), a publicly traded company on the TSX Venture exchange. The Company considers certain judgments and assumptions when assessing whether significant influence exists over its investments. This includes an assessment of the Company’s ability to participate in financial and operating policy decisions of the investee. The existence and effect of potential voting rights held by the investor or other entities were also considered. IFRS 9 requires all equity investments to be measured at fair value. Changes in fair value are recognized in profit or loss (“FVPL”). The application of IFRS 9 in 2018 resulted an increase of \$290 thousand to accumulated deficit and a corresponding decrease to accumulated other comprehensive income.

At September 30, 2019, the carrying value of this investment was \$203 thousand (December 31, 2018 – \$232 thousand). During the nine months ended September 30, 2019, the Company recognized a \$29 thousand decrease in the carrying value of its investment in Wescan.

## 8. Exploration and evaluation assets

The Company holds a 100% interest in properties located in the central part of Saskatchewan, Canada ("Fort à la Corne properties"). These properties are accounted for as one cash generating unit. The carrying value of the Fort à la Corne properties represents the acquisition of minority interests of the Fort à la Corne properties since 2005, net of impairments. Based on the 2017 transaction ("Newmont Acquisition") with Newmont Canada FN Holdings ULC ("Newmont"), a wholly-owned subsidiary of Newmont Goldcorp, the Company performed an assessment of the estimated recoverable amount of the Fort à la Corne properties. As a result, the carrying value of the Fort à la Corne properties, including the Company's Star – Orion South Diamond Project ("Project"), was determined to be \$66,344 thousand (2018 - \$66,344 thousand).

As part of the Newmont Acquisition, Newmont will receive a contingent payment in the aggregate amount of \$3,200 thousand if a positive decision is made to develop a mine on the Project. The Company, in its sole discretion (subject to regulatory approvals), may satisfy the contingent payment due to Newmont through a cash payment or the issuance of common shares. An estimate of the discounted present value of this contingent consideration was performed by management, using a risk-free discount rate that reflects current market assessments of the time value of money and probability weighted cash flows. This was determined to be \$730 thousand (2018 - \$730 thousand).

At the time of the Newmont Acquisition, the Company concurrently entered into an Option to Joint Venture Agreement (the "Option Agreement") with Rio Tinto Exploration Canada Inc. ("RTEC"), a wholly-owned subsidiary of Rio Tinto, pursuant to which the Company has granted RTEC an option to earn up to a 60% interest in the Fort à la Corne properties (including the Project) on the terms and conditions contained in the Option Agreement.

## 9. Exploration and evaluation expense

The Company's exploration and evaluation expense for the nine months ended September 30, is comprised of the following:

	September 30, 2019	September 30, 2018
Fort à la Corne properties		
Depreciation of property and equipment	\$ 6	\$ 24
Exploration and evaluation	915	1,241
Share-based payments	389	424
Buffalo Hills property		
Exploration and evaluation	6	6
Total	\$ 1,316	\$ 1,695

## 10. Share capital and reserves

### Authorized

The authorized share capital of the Company consists of unlimited common shares with no par value.

The common shares of the Company are entitled to dividends pro-rated when declared by the Board of Directors and to one vote per share at meetings of the shareholders of the Company. Upon dissolution or any other distribution of assets, the shareholders are entitled to receive a pro-rata share of such distribution.

Common shares issued and fully paid:

	Common Shares (in thousands)	Amount (in thousands)
Balance – December 31, 2018	392,073	\$ 838,014
Issuance of shares on exercise of warrants	12,430	2,849
Issuance of shares on redemption of restricted share units	3,362	665
Issuance of shares on exercise of options	1,200	352
Balance – September 30, 2019	409,065	\$ 841,880

Broker warrants reserve

On certain issues of common shares, the Company issued broker warrants as partial consideration to the agent for services associated with the share issuance. Each broker warrant entitles the agent to acquire one common share of the Company for a period of 12 to 24 months after closing. The broker warrant reserve is used to recognize the fair value of outstanding warrants. If the broker warrant is exercised or expires the fair value is transferred to share capital or contributed surplus, respectively. No broker warrants were issued, redeemed or expired during the nine months ended September 30, 2019.

Warrant reserve

On certain issues of common shares, the Company has issued warrants with the common shares entitling the holder to acquire additional common shares of the Company. The warrant reserve is used to recognize the fair value of outstanding warrants. If the warrant is exercised or expires the fair value is transferred to share capital or contributed surplus, respectively. Warrant movements (in thousands) during the nine months ended September 30 is as follows:

	Warrants (in thousands)	Average Price	Amount (in thousands)
Balance – December 31, 2018	13,536	\$ 0.21	\$ 560
Exercised	(12,430)	0.20	(336)
Balance – September 30, 2019	1,106	\$ 0.35	\$ 224

**11. Share-based payments**

(a) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, employees and service providers to purchase common shares of the Company. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of the Company on the trading day prior to the date on which the option is granted. Certain options vest immediately while others vest six to twelve months after grant date and all options granted under the plan expire five years from the date of the grant of the options. All options are to be settled by physical delivery of shares. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Performance Share Unit and Restricted Share Unit Plan.

Option movements (in thousands) during the nine months ended September 30, including weighted average exercise prices, are as follows:

	2019		2018	
	Options	Average Price	Options	Average Price
Outstanding – January 1	10,529	\$ 0.20	10,144	\$ 0.20
Granted	9,700	0.20	1,748	0.19
Exercised	(1,200)	0.18	(500)	0.16
Expired	(400)	0.27	(661)	0.17
Outstanding – September 30	18,629	\$ 0.20	10,731	\$ 0.20
Exercisable – September 30	17,479	\$ 0.20	10,131	\$ 0.20

The options outstanding at September 30, 2019 have an exercise price in the range of \$0.17 to \$0.235 (2018 – \$0.17 to \$0.27) and a weighted average contractual life of 3.2 years (2018 – 2.3 years). The options expire between the dates of February 2020 to June 2024.

The expense related to the Company's share-based payments as a result of certain options vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30 are as follows:

Expense Category included	September 30, 2019	September 30, 2018
Administration	\$ 533	\$ 116
Exploration and evaluation	270	79
Total	\$ 803	\$ 195

The grant date fair value of stock options issued under the plan is estimated using the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. Option life is estimated based on the average of the vesting period and the contractual life of options granted. The inputs used in the measurement of the fair values at grant date of the share-based payments during the nine months ended September 30 are as follows:

	September 30, 2019	September 30, 2018
Share price at grant date	\$ 0.20	\$ 0.19
Exercise price	\$ 0.20	\$ 0.19
Expected volatility	68.8 – 70.5%	74.2 – 77.9%
Estimated option life	2.5 – 2.8 years	4.0 – 5.0 years
Expected dividends	0 %	0 %
Expected forfeiture rate	0 %	0 %
Risk-free interest rate	1.37 – 1.38%	1.92 – 1.96%
Fair value at grant date	\$ 0.09	\$ 0.11 – 0.12

(b) Deferred share unit plan

The Company has established a deferred share unit plan (the "DSU Plan"), which provides for the grant of deferred share units ("DSUs") to eligible directors of the Company. The DSUs provide for the cash payment of certain amounts, or the issuance of common shares, to eligible directors. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the DSU plan and, as such, the DSUs are accounted for within shareholders' equity. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Performance Share Unit and Restricted Share Unit Plan and the Company's Share Option Plan. As these DSUs are expected to be settled with equity, an amount equal to the stock-based compensation expense is initially credited to contributed surplus and transferred to share capital if and when the deferred share unit is redeemed. DSUs vest immediately.

DSU movements (in thousands) during the nine months ended September 30 are as follows:

	September 30, 2019	September 30, 2018
Outstanding – January 1	438	776
Granted	56	325
Redeemed for common shares from treasury	-	(663)
Outstanding – September 30	494	438

The expense related to the Company's share-based payments as a result of DSUs vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30 are as follows:

Expense category included	September 30, 2019	September 30, 2018
Administration	\$ 13	\$ 65
<b>Total</b>	<b>\$ 13</b>	<b>\$ 65</b>

(c) Performance share unit and restricted share unit plan

The Company has established a performance share unit and restricted share unit plan (the "Unit Plan"), which provides for the grant of performance share units ("PSUs") and restricted share units ("RSUs") to eligible officers and employees of the Company. Upon redemption, the vested PSUs and/or the RSUs provide for the cash payment of certain amounts, or the issuance of common shares, to the participants. The Company does not intend to make cash payments and there is no history of the Company making cash payments under the Unit plan and, as such, the PSUs and RSUs are accounted for within shareholders' equity. These common shares would be issued from the same 10% rolling pool as the common shares issued under the Company's Deferred Share Unit Plan and the Company's Share Option Plan. As PSUs and RSUs are expected to be settled with equity, an amount equal to compensation expense is initially credited to contributed surplus, recognized over the term of the vesting period, and transferred to share capital if and when the units are exercised. RSUs vest in three tranches, with all RSUs vesting no later than the third anniversary from the date of grant.

As of September 30, 2019 no PSUs have been granted. RSU movements (in thousands) during the nine months ended September 30 are as follows:

	September 30, 2019	September 30, 2018
Outstanding – January 1	5,967	2,755
Granted	-	7,815
Redeemed for common shares from treasury	(3,362)	(4,603)
<b>Outstanding – September 30</b>	<b>2,605</b>	<b>5,967</b>

The expense related to the Company's share-based payments as a result of RSUs vesting over the period is recognized in the comprehensive statement of loss for the nine months ended September 30 are as follows:

Expense category included	September 30, 2019	September 30, 2018
Administration	\$ 231	\$ 669
Exploration and evaluation	119	345
<b>Total</b>	<b>\$ 350</b>	<b>\$ 1,014</b>

## 12. Related party transactions

### Related party transactions with key management personnel

The Company pays certain of its key management personnel through companies owned by certain executive officers and directors. Those companies are as follows:

MacNeill Brothers Oil and Gas Ltd.  
George Read Consulting Inc.

Compensation of key management personnel and directors, including payments made or payable to related parties owned by executive officers and directors during the nine months ended September 30, is as follows:

	September 30, 2019	September 30, 2018
Short-term benefits to key management and directors	\$ 141	\$ 160
Consulting and management fees to related companies	323	323
Share based payments	919	949
<b>Total compensation paid to key management personnel and directors</b>	<b>\$ 1,383</b>	<b>\$ 1,432</b>

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel and directors. The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The fair value of share-based payments was determined using the Black-Scholes model. The fair value of share-based payments in the form of RSUs and DSUs was determined based on the five-day volume weighted average trading price of the Company's shares preceding the date of grant.

The compensation paid or payable to key management personnel and directors are included in the Company's statement of comprehensive loss during the nine months ended September 30 is as follows:

	September 30, 2019	September 30, 2018
Administration	\$ 1,001	\$ 1,063
Exploration and evaluation	382	369
<b>Total compensation paid to key management personnel and directors</b>	<b>\$ 1,383</b>	<b>\$ 1,432</b>

### 13. Financial instruments

Fair values have been determined for measurement and/or disclosure purposes based on the fair value hierarchy for financial instruments that require fair value measurement after initial recognition. The classification of each financial instrument is described in note 4 of the Company's consolidated financial statements for the year ended December 31, 2018.

The carrying amounts for cash and cash equivalents, short-term investments, receivables, restricted cash and trade payables approximate their fair value due to the short-term nature of these instruments. These financial instruments are carried at amortized costs.

All financial instruments measured at fair value are categorized into one of three hierarchy levels as described in note 20 of the Company's consolidated financial statements for the year ended December 31, 2018. These financial instruments include the Company's investment in Wescan (level 1) and the contingent consideration (level 3).

#### Risk management

Certain financial instruments are exposed to the following financial risks:

##### (a) Credit risk

Credit risk is the risk of an unexpected loss by the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company considers this risk to be insignificant as the majority of the Company's cash and cash equivalents, short-term investments, and restricted cash are held by financial institutions with an A (low) credit rating or are invested in Government of Canada treasury bills which are backed by the Government of Canada. At September 30, 2019, the Company's credit risk relates to its cash and cash equivalents, receivables and restricted cash of \$4,073 thousand (December 31, 2018 – \$3,453 thousand).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to forecast future cash flows to ensure that it will have sufficient liquidity to meet its obligations when due. To ensure the Company has sufficient cash on hand, the Company prepares annual capital and operating budgets which are regularly monitored and updated as considered necessary. As at September 30, 2019, the Company had working capital of \$3.4 million and is required to incur a further \$0.3 million of qualifying expenditures before December 31, 2019 as a result of the flow-through share financing discussed in note 16 of the Company's consolidated financial statements for the year ended December 31, 2018. Given that cash flow from operations are negative, the Company is dependent on additional sources of financing.

As at September 30, 2019, the Company had guaranteed certain liabilities by issuing \$622 thousand (December 31, 2018 – \$622 thousand) of irrevocable standby letters of credit. The Company backs the letters of credit with investments which have been recorded on the financial statements as restricted cash. The Company does not include restricted cash in its working capital when analyzing its liquidity requirements. The guarantees as at September 30, 2019 relate to environmental rehabilitation provisions.

The further exploration, evaluation and/or development of exploration and evaluation properties in which the Company holds interests or which the Company acquires may depend upon the Company's ability to obtain financing through equity issues or other forms of financing. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration, evaluation and/or development of its projects with the possible loss of such properties.

(c) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk. As at September 30, 2019, the Company does not have significant exposure to any of these market risks.