

Bluestone **R E S O U R C E S I N C .**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED MAY 31, 2017

In U.S. Dollars

Unaudited – Prepared by Management

Bluestone Resources Inc.
Condensed Interim Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)
 Unaudited – Prepared by Management

	Notes	May 31, 2017	November 30, 2016	December 1, 2015
			(Restated – Notes 3 & 14)	(Restated – Notes 3 & 14)
ASSETS				
Current				
Cash		\$ 36,986,173	\$ 21,123	\$ 96,732
Accounts receivable		64,865	1,411	5,790
Prepaid expenses		42,280	83	1,873
Inventory	2,4	168,556	-	-
Deferred financing costs	10	4,105,973	-	-
		41,367,847	22,617	104,395
Deposits	4	2,000,000	-	27,923
Property, plant and equipment	4,5	1,114,552	-	-
Exploration and evaluation assets	4,6	42,851,282	-	696,650
Total Assets		\$ 87,333,681	\$ 22,617	\$ 828,968
LIABILITIES				
Current				
Accounts payable and accrued liabilities	7,11	\$ 868,239	\$ 60,054	\$ 77,959
Loans payable	11	10,360	-	-
		878,599	60,054	77,959
Contingent liability	4,8	12,724,849	-	-
Rehabilitation provisions	4,9	8,519,423	-	-
SHAREHOLDERS' EQUITY				
Share capital	10	20,324,454	20,324,454	20,324,454
Subscriptions received	10	62,036,465	-	-
Reserves		10,661,001	7,091,544	7,091,544
Accumulated other comprehensive income		2,133,205	2,127,741	2,121,977
Deficit		(29,944,315)	(29,581,176)	(28,786,966)
		65,210,810	(37,437)	751,009
Total Liabilities and Shareholders' Equity		\$ 87,333,681	\$ 22,617	\$ 828,968

Nature of operations and going concern (note 1)

Subsequent events (note 15)

APPROVED ON JULY 19, 2017 ON BEHALF OF THE BOARD:

“Keith Peck”, Director

“James Paterson”, Director

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

Bluestone Resources Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and six month periods ended May 31, 2017 and May 31, 2016

(Expressed in U.S. Dollars)

Unaudited – Prepared by Management

Notes	Three Months Ended May 31, 2017	Three Months Ended May 31, 2016	Six Months Ended May 31, 2017	Six Months Ended May 31, 2016
		(Restated – Notes 3 & 14)		(Restated – Notes 3 & 14)
Expenses				
Advertising and promotion	\$ -	\$ -	\$ 4,108	\$ 227
Corporate listing and filing fees	13,136	6,558	17,651	6,672
Office and administration	12,429	495	21,508	1,706
Professional fees	23,613	(29)	24,322	1,723
Rent	1,535	13,616	1,903	13,923
Transfer agent fees	2,111	1,143	5,099	4,940
Property investigation	21,529	-	31,417	-
Wages and consulting fees	173,248	8,162	352,091	15,719
	(247,601)	(29,945)	(458,099)	(44,910)
Other income	30,163	1,744	30,163	1,744
Foreign exchange gain	64,797	-	64,797	-
Net loss	(152,641)	(28,201)	(363,139)	(43,166)
Translation adjustment	24,343	26,533	5,464	15,727
Comprehensive loss	\$ (128,298)	\$ (1,668)	\$ (357,675)	\$ (27,439)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.01)	\$ (0.09)	\$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	4,262,954	4,262,954	4,262,954	4,262,954

Bluestone Resources Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in U.S. Dollars)
Unaudited – Prepared by Management

		<u>Share Capital</u>				Accumulated Other Comprehensive Income	Deficit	Total shareholders' equity
	Notes	Number of shares	Amount	Subscriptions received	Reserves			
Balance, December 1, 2015		4,262,954	\$ 20,324,454	\$ -	\$ 7,091,544	\$ 2,121,977	\$ (28,786,966)	\$ 751,009
Loss for the period		-	-	-	-	15,727	(43,166)	(27,439)
Balance, May 31, 2016		4,262,954	\$ 20,324,454	\$ -	\$ 7,091,544	\$ 2,137,704	\$ (28,830,132)	\$ 723,570
Balance, November 30, 2016		4,262,954	\$ 20,324,454	\$ -	\$ 7,091,544	\$ 2,127,741	\$ (29,581,176)	\$ (37,437)
Subscriptions received	10	-	-	62,036,465	-	-	-	62,036,465
Special warrants	4	-	-	-	3,440,198	-	-	3,440,198
Consideration warrants	4	-	-	-	129,259	-	-	129,259
Loss for the period		-	-	-	-	5,464	(363,139)	(357,675)
Balance, May 31, 2017		4,262,954	\$ 20,324,454	\$ 62,036,465	\$ 10,661,001	\$ 2,133,205	\$ (29,944,315)	\$ 65,210,810

Bluestone Resources Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the six month periods ended May 31, 2017 and May 31, 2016

(Expressed in U.S. Dollars)

Unaudited – Prepared by Management

	Notes	2017	2016
Cash flows used in operating activities			
Net loss for the period	\$	(363,139)	\$ (43,166)
Changes in non-cash working capital:			
Accounts receivable		(58,400)	(1,983)
Prepaid expenses		(42,796)	1,873
Accounts payable and accrued liabilities		380,979	(21,794)
Deposits		-	12,611
Net cash used in operating activities		(83,356)	(52,459)
Cash flows from investing activities			
Cash paid on Acquisition	4	(17,900,000)	-
Cash acquired in Acquisition	4	339,890	-
Acquisition costs	4	(1,714,850)	-
Deposit paid for Marlin mine assets	4	(2,000,000)	-
Net cash used in investing activities		(21,274,960)	-
Cash flows from financing activities			
Deferred financing costs	10	(3,725,218)	-
Proceeds from subscriptions	10	59,202,842	-
Proceeds from convertible loans	10	2,833,623	-
Proceeds from loans payable	11	10,513	-
Net cash provided by financing activities		58,321,760	-
Effects of foreign exchange		1,606	377
Change in cash		36,965,050	(52,082)
Cash, beginning of the period		21,123	96,732
Cash, end of the period		\$ 36,986,173	\$ 44,650
Non-cash transactions			
Deferred financing costs included in accounts payable	\$	380,755	\$ -
Cash paid for interest	\$	-	\$ -
Cash paid for taxes	\$	-	\$ -

Bluestone Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
Three and six month periods ended May 31, 2017 and May 31, 2016

(Expressed in U.S. Dollars)
Unaudited – Prepared by Management

1. Nature of Operations and Going Concern

a) Nature of operations

Bluestone Resources Inc. ("Bluestone" or the "Company"), was incorporated on November 7, 2000 under the Business Corporations Act (Alberta) and continued into British Columbia on June 13, 2005, and is engaged in the acquisition, exploration and development of exploration and evaluation assets in the Americas. The Company's head office is located at Suite 1020, 800 West Pender Street, Vancouver, BC, V6C 2V6. The Company is listed on the TSX Venture Exchange and trades under the symbol BSR.

During the period ended May 31, 2017, the Company consolidated its share capital on the basis of 5 old common shares for one new common shares. Outstanding stock options and warrants were adjusted by the consolidation ratio. All common shares and per share amounts in these financial statements have been retroactively restated to reflect the share consolidation.

b) Going concern

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

The Company has a history of losses with no revenues and has working capital of \$40,489,248 as at May 31, 2017. Within the next twelve months, Bluestone's objectives center on the development of a detailed strategy for advancing the completion of a feasibility study and a construction decision for the Cerro Blanco gold project ("Cerro Blanco") and further economic assessment of the Mita Geothermal project ("Mita Geothermal"). There can be no assurances that the Company will be able to obtain additional financing on satisfactory terms and/or achieve profitability or positive cash flows from its future operations. Management believes that the Company has sufficient working capital to maintain its planned operations and its activities for the next fiscal year due to the recent financing (notes 4 & 10).

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

Bluestone Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
Three and six month periods ended May 31, 2017 and May 31, 2016

(Expressed in U.S. Dollars)
Unaudited – Prepared by Management

2. Significant Accounting Policies

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

These condensed consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the year ended November 30, 2016.

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

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 19th, 2017.

The accounts of Entre Mares de Guatemala S.A. and Blue NRG Ltd. have been consolidated from the date of acquisition on May 31, 2017 (note 4). For all periods presented, these condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. A wholly owned subsidiary is an entity in which the Company has 100% control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise to obtain benefits from its activities.

b) New accounting policies

During the period ended May 31, 2017, the Company adopted the following new accounting policies:

Inventory

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

Bluestone Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
Three and six month periods ended May 31, 2017 and May 31, 2016

(Expressed in U.S. Dollars)
Unaudited – Prepared by Management

2. Significant Accounting Policies (cont'd...)

b) New accounting policies (cont'd...)

Exploration and Evaluation Assets

Before legal rights to explore a property have been acquired, costs are expensed as incurred. Costs related to the acquisition of exploration and evaluation assets are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition costs are not recoverable over the estimated economic life of the property, the property is abandoned or management deems there to be an impairment in value, the property is written down to its net realizable value.

Costs related to the exploration and evaluation of mineral properties are recognized in profit or loss as incurred. Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral interest. If payments received exceed the capitalized cost of the mineral interest, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and evaluation, and future profitable production or proceeds from the disposition thereof.

During the period ended May 31, 2017 the Company changed its accounting policy related to exploration and evaluation assets (note 3).

Property, plant, and equipment

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

The major categories of equipment are amortized as follows:

Buildings:	10 years	straight-line basis
Plant and equipment:	3-13 years	straight-line basis

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

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

Bluestone Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
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2. Significant Accounting Policies *(cont'd...)*

b) New accounting policies *(cont'd...)*

Rehabilitation provisions

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

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

Contingent liability

In an asset acquisition, the Company recognizes a contingent consideration at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), is measured at fair value with changes in fair value recognized either in profit or loss, or as a change to other comprehensive income ("OCI"). If the contingent consideration is not within the scope of IAS 39, it is measured at fair value in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

c) New significant estimates and judgments

The following are the new critical judgments, estimates and assumptions since the Company's last annual financial statements that the Company has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements:

Key sources of estimation uncertainty

Contingent liability

In estimating the fair value of the contingent liability (notes 4 & 8), the Company must make estimates at each reporting period considering different scenarios of projected production from Cerro Blanco, the number of years over which royalties are expected to occur, the range of royalties projected, the probability and weight of each scenario and the discount rate.

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2. Significant Accounting Policies *(cont'd...)*

c) **New significant estimates and judgments** *(cont'd...)*

Fair value of financial instruments

The Company uses valuation techniques in measuring the fair value of financial instruments where active market quotes are not available, including the contingent considerations associated with the acquisition of Cerro Blanco and Mita Geothermal in Guatemala (the "Acquisition") in note 4. In applying the valuation techniques, the Company makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, the Company uses its best estimate about the assumptions that market participants would make. The assumptions used in determining the fair value of the Company's contingent liability are disclosed in note 8.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Determination of functional currency of acquired subsidiaries

In accordance with IAS 2, *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the companies acquired in the Acquisition (note 4) is the U.S. dollar as this is the currency of the primary economic environment in which the companies operate.

Purchasing a set of assets and liabilities

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgments as to whether the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in *IFRS 3, Business Combinations*. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of the relevant facts and circumstances, the Company concluded that the Acquisition disclosed in note 4 shall be accounted for as an acquisition of assets.

3. Changes in Accounting Policies

Exploration and evaluation assets

With the Acquisition on May 31, 2017 (note 4), management has revisited the treatment of exploration costs and has concluded that, in accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources*, the change in accounting policy from capitalizing to expensing exploration and evaluation expenditures makes the financial statements more relevant to the economic decision-making needs of its users.

The Company's exploration expenditures for year ended November 30, 2016, and on a go forward basis, will be charged to the consolidated statement of loss and comprehensive loss in the period incurred until it has been determined that a property has economically recoverable reserves, in which case subsequent exploration and development expenditures are capitalized.

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3. Changes in Accounting Policies (cont'd...)

Due to the change in accounting policy the Company has restated the comparative financial information on the consolidated statements of financial position for the years ended November 30, 2016 and 2015 and the comparative financial information on the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the three and six month periods ended May 31, 2016.

The Company will continue to capitalize the initial acquisition costs related to exploration and evaluation properties.

As there were no capitalized deferred exploration costs as at December 1, 2015 or November 30, 2016, the change in policy has no effect on the periods presented.

Change in currency presentation

With the Company's Guatemalan operations having the U.S. dollar as their functional currency, the Company has decided to change its presentation currency from the Canadian dollar to the U.S. dollar to better reflect the operations of the consolidated operations. The change in the financial statement presentation currency is considered an accounting policy change and has been accounted for retrospectively. For periods prior to December 1, 2016, the statements of financial position for each period presented have been translated from the Canadian dollar functional currency to the new US dollar presentation currency at the rate of exchange prevailing at the respective financial position date with the exception of equity items, which have been translated at accumulated historical rates from the Company's date of incorporation. The statements of operations and comprehensive loss were translated at the average exchange rates for the reporting period, or at the exchange rate prevailing at the date of transactions. Exchange differences arising on translation from the Canadian dollar functional currency to the US dollar presentation currency have been recognized in other comprehensive income and accumulated as a separate component of equity.

The Company has presented a third statement of financial position as at December 1, 2015 without the related notes except for the disclosure requirements outlined in IAS 1, *Presentation of Financial Statements*. In addition, the comparative figures on the statement of operations were amended to conform to the current presentation.

The effects of the changes in accounting policies are reflected in note 14.

4. Acquisition of Cerro Blanco Gold Project and Mita Geothermal Project

On May 31, 2017, the Company completed its purchase agreement with Goldcorp Inc. ("Goldcorp") and its affiliates to acquire 100% of Cerro Blanco located in Guatemala, which was owned by Goldcorp's indirect wholly-owned subsidiary Entre Mares de Guatemala S.A. ("Entre Mares"), and Mita Geothermal located in Guatemala, which was owned by Goldcorp's indirect wholly-owned subsidiary, Blue NRG Limited ("NRG"). In addition, the Company acquired a right of first refusal ("ROFR") on certain assets and equipment at Goldcorp's Marlin mine. The Acquisition has been accounted for as an acquisition of assets and assumption of liabilities.

Pursuant to the Acquisition, the Company acquired:

- (i) all of the outstanding intercompany debt owed from Entre Mares to Goldcorp;
- (ii) all of the issued and outstanding shares of Entre Mares and, consequently, a 100% interest in Cerro Blanco;
- (iii) all of the issued and outstanding shares of NRG and, consequently, a 100% interest in Mita Geothermal; and
- (iv) a ROFR on the assets, including the mining fleet, processing plant, and other equipment related to Goldcorp's Marlin mine in Guatemala once mining and processing activities cease.

Bluestone Resources Inc.
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Three and six month periods ended May 31, 2017 and May 31, 2016

(Expressed in U.S. Dollars)
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4. Acquisition of Cerro Blanco Gold Project and Mita Geothermal Project (cont'd...)

The aggregate purchase consideration for the Acquisition consists of:

- (i) \$17.9 million cash;
- (ii) \$2.0 million cash as a non-refundable deposit to be applied to the purchase price of Marlin equipment purchased under the Marlin Equipment ROFR;
- (iii) a 1% net smelter returns (“NSR”) royalty on the sale of gold and silver produced from Cerro Blanco (the “Contingent Consideration – NSR”)(note 8);
- (iv) a \$15 million cash payment to Goldcorp within six months of commencement of commercial production at Cerro Blanco (the “Contingent Consideration – Commercial Production”)(note 8);
- (v) 3,099,160 special warrants (note 10) of the Company (the “Special Warrants”). Each Special Warrant will automatically entitle Goldcorp to acquire one common share of the Company without further payment or action; and
- (vi) 258,805 common share purchase warrants (note 10) of the Company (the “Consideration Warrants”). Each Consideration Warrant will be exercisable into one common share at an exercise price of \$2.00 for a period of 24 months from the May 31, 2017.

In connection with the Acquisition, the Company completed a private placement pursuant to which the Company issued 53,333,333 subscription receipts at a price of C\$1.50 (note 10) with each subscription receipt entitling the holder thereof to receive one common share of the Company. Subsequent to May 31, 2017, the subscription receipts were automatically converted and the underlying common shares of the Company were issued (note 15).

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

Purchase consideration	
Cash	\$ 17,900,000
Contingent consideration – NSR	5,546,849
Contingent consideration – Commercial production	7,178,000
Special Warrants	3,440,198
Consideration Warrants	129,259
Transaction costs	1,714,850
	\$ 35,909,156
Net identifiable assets acquired	
Cash and cash equivalents	\$ 339,890
Amounts receivable	5,933
Inventory	168,556
Property, plant and equipment	1,114,552
Exploration and evaluation assets	42,851,282
Accounts payable and accrued liabilities	(51,634)
Rehabilitation provision	(8,519,423)
	\$ 35,909,156

The value of \$42,851,282 for the exploration and evaluation assets was derived by the purchase price amount of \$35,909,156, plus the net liabilities assumed of \$6,942,126 (which includes cash, receivables, inventory, and property, plant and equipment acquired, less accounts payable and accrued liabilities and the rehabilitation provision assumed).

The consideration for the ROFR was not included in the purchase price allocation above as it has been accounted for as a separate transaction.

Bluestone Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements

Three and six month periods ended May 31, 2017 and May 31, 2016

(Expressed in U.S. Dollars)

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5. Property, Plant and Equipment

On May 31, 2017, the Company completed the Acquisition as described in note 4. In connection with the Acquisition, the Company acquired the following property, plant and equipment:

	Land	Buildings	Plant and equipment	Total
Net Book Value				
Balance, December 1, 2015, and November 30, 2016	\$ -	\$ -	\$ -	\$ -
Additions	907,858	2,901	203,793	1,114,552
Balance, May 31, 2017	\$ 907,858	\$ 2,901	\$ 203,793	\$ 1,114,552

6. Exploration and Evaluation Assets

The following provides a summary of the costs capitalized and written off with respect to our exploration and evaluation assets:

	Six months Ended May 31, 2017 Acquisition Costs	Year Ended November 30, 2016 Acquisition Costs
Opening balance	\$ -	\$ 930,000
Acquisition (note 4)	42,851,282	-
Impairment of exploration and evaluation asset	-	(930,000)
Ending balance	\$ 42,851,282	\$ -

As at November 30, 2016, the Company impaired the carrying value of the Mohave Copper-Moly-Silver Porphyry project in Arizona to \$nil as management had no further plans to continue exploration of the property.

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	May 31, 2017	November 30, 2016
Trade payables	\$ 807,040	\$ 44,969
Accrued liabilities	44,402	15,085
Payroll liabilities	16,797	-
Total accounts payable and accrued liabilities	\$ 868,239	\$ 60,054

Bluestone Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
Three and six month periods ended May 31, 2017 and May 31, 2016

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8. Contingent Liability

As described in note 4, the Company agreed to make contingent payments to Goldcorp as part of the consideration paid for the Acquisition. The fair value of the contingent payments has been determined as follows:

Contingent consideration – NSR

The fair value is determined considering the estimated royalty payments to Goldcorp, discounted to present value. The estimated payment is calculated applying the income approach, considering different scenarios of projected production from Cerro Blanco, considering the amount to be paid under each scenario, weighted by the probability of each scenario. Management reviews measurement assumptions for each reporting period to incorporate any new operational knowledge that would result in a material change in the measurement of the Contingent consideration – NSR.

The material assumptions used to measure the Contingent consideration – NSR are as follows:

Total royalty payments:	\$12.3 million
Range of years of production:	3-15
Probability of production:	50%
Range of weightings:	5% - 40%
Range of discount rates:	1.02% -1.47%

The estimated fair value increases with higher probabilities of production, higher production from Cerro Blanco and thus higher royalties and a lower discount rate.

Contingent consideration – Commercial production

The fair value is determined considering the probability and timing of the \$15 million payment to Goldcorp, discounted to present value. The estimated payment is calculated applying the income approach, considering different scenarios of projected commercial production dates for Cerro Blanco, weighted by the probability of each scenario and its timing. Management reviews measurement assumptions for each reporting period to incorporate any new operational knowledge that would result in a material change in the measurement of the Contingent consideration – Commercial production.

The material assumptions used to measure the Contingent consideration – Commercial production are as follows:

Total payment:	\$15 million
Range of years of production:	3-7
Probability of commercial production:	50%
Range of weightings:	5% - 40%
Range of discount rates:	1.02% -1.47%

The estimated fair value increases with commercial production being achieved earlier, higher probabilities of commercial production being assumed and a lower discount rate.

Bluestone Resources Inc.
Notes to Condensed Interim Consolidated Financial Statements
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(Expressed in U.S. Dollars)
Unaudited – Prepared by Management

9. Rehabilitation Provisions

On May 31, 2017, the Company completed the acquisition of the Cerro Blanco and Mita Geothermal properties (note 4). In connection with the acquisition of these properties, management has estimated the present value of future rehabilitation costs required to remediate the properties based on their current state.

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

Although the ultimate amount of the rehabilitation liability is uncertain, the best estimate of these obligations is based on information currently available. Significant closure activities include land rehabilitation, demolition of buildings and other costs.

The total amount of estimated undiscounted cash flows excluding inflation required to settle the Company's estimated obligation as at May 31, 2017 is \$8,247,149 (2015 - \$nil), which has been discounted using a rate of 2.94% and an inflation rate of 4%. The present value of the decommissioning liabilities of \$8,519,423 may be subject to change based on management's estimates, changes in remediation technology or changes to applicable laws and regulations. The liabilities are expected to be settled at various dates which are currently expected to extend from 2020 to 2023.

10. Share Capital

As at May 31, 2017, there were an unlimited number of common voting shares without par value and preferred shares without par value authorized.

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

a) Private placements

No shares were issued during the six month period ended May 31, 2017.

During the six months ended May 31, 2017, the Company issued 53,333,333 in subscription receipts at a price of C\$1.50/receipt for gross proceeds of C\$80,000,000 (\$59,202,842 at the May 31, 2017 USD/CAD exchange rate of 1.3513). The Company incurred \$4,105,973 in deferred financing costs in connection with the subscription receipts issued. The deferred financing costs include agent commissions of \$3,489,960, other agent fees of \$271,115, legal fees of \$277,857 and filing fees of \$67,041. Subsequent to May 31, 2017, the subscription receipts were converted into common shares (note 15).

During the six months ended May 31, 2017, the Company received C\$3,829,075 (\$2,833,623 at the May 31, 2017 USD/CAD exchange rate of 1.3513) in convertible loans which were converted to shares subsequent to May 31, 2017 (note 15). The convertible loans are included in subscriptions received as at May 31, 2017 as they automatically convert on conversion of the subscription receipts.

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10. Share Capital (cont'd...)

b) Share purchase and agents warrants

Details of outstanding warrants are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding November 30, 2016	3,850,376	\$ 0.61
Issued	258,805	2.00
Expired	(103,800)	10.00
Outstanding May 31, 2017	4,005,381	\$ 0.46

During the six month period ended May 31, 2017, 103,800 share purchase warrants expired unexercised.

As at May 31, 2017, the following warrants were outstanding:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
May 31, 2019	\$2.00	258,805	2.00
June 2, 2020	\$0.35	596,000	3.01
June 4, 2020	\$0.35	2,353,920	3.01
July 7, 2020	\$0.35	796,656	3.10
	\$0.46	4,005,381	2.97

The fair value of \$129,259 for the Consideration Warrants issued during the period was estimated using the Black-Scholes Option Pricing Model with the following assumptions: Risk-free rate – 0.74%, Volatility – 100%, Dividend yield – 0%, expected life – 2 years.

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10. Share Capital (cont'd...)

c) Stock options

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

The options are non-transferable and will expire, if not exercised, immediately upon dismissal by the Company with cause or 90 days following the date the optionee otherwise ceases to be a director, officer, manager, consultant or employee of the Company.

As at May 31, 2017 and November 30, 2016, no stock options are outstanding. Subsequent to the period end, the Company granted 4,935,000 incentive stock options (note 15).

d) Special Warrants

As consideration for the Acquisition, the Company issued 3,099,160 Special Warrants to Goldcorp which convert at the option of Goldcorp to 3,099,160 common shares of the Company for no further consideration. The fair value of the Special Warrants was determined to be C\$4,648,740 (\$3,440,198 at the May 31, 2017 USD/CAD exchange rate of 1.3513) based on the concurrent subscription receipt financing price of C\$1.50/common share (note 10(a)). Subsequent to May 31, 2017, the Special Warrants were exercised (note 15).

11. Related Party Transactions

a) Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel for the six month period ended May 31, 2017 was \$221,751 (May 31, 2016 - \$nil) which is included in wages and consulting on the consolidated statement of loss and comprehensive loss. No other remuneration was paid.

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11. Related Party Transactions *(cont'd...)*

b) Related party transactions

The balance payable to related parties as at May 31, 2017 was \$44,420 (November 30, 2016 - \$22,186). The balance is payable to directors and officers of the Company and is included in accounts payable and accrued liabilities. These payables are unsecured, non-interest bearing and are expected to be repaid under normal trade terms.

During the six months ended May 31, 2017, the Company received a \$10,513 loan from an officer and director of the Company. The loan was non-interest bearing, unsecured with no fixed terms of repayment.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

12. Financial Instruments

Categories of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, loans payable and contingent liability. Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates their value because of the relatively short periods to maturity of these instruments.

The Company's contingent liability relates to contingent future payments to Goldcorp and is classified as fair value through profit or loss using level 2 and 3 inputs. The Company uses valuation techniques in measuring the fair value of the contingent consideration associated with its contingent liability. In applying the valuation techniques, the Company uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, the Company uses its best estimate about the assumptions that market participants would make. See note 8 for further disclosure.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash and amounts receivable. Management believes that the credit risk concentration with respect to these financial instruments is remote as the balances primarily consist of amounts on deposit with a major financial institution and amounts receivable from the Government of Canada. The maximum exposure to credit risk as at May 31, 2017 was \$37,051,038 (November 30, 2016 - \$22,534).

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2017, the Company had a cash balance of \$36,986,173 (November 30, 2016 - \$21,123) to settle current liabilities of \$878,599 (November 30, 2016 - \$60,054). All of the Company's financial liabilities are subject to normal trade terms.

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12. Financial Instruments (cont'd...)

Market risk

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

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. A 1% change in interest rates would not have a significant impact on the Company's comprehensive loss for the period.

(b) Foreign currency risk

The Company is exposed to foreign currency risk in connection with its Canadian dollar denominated financial instruments. A 10% fluctuation in the C\$/US\$ rate would result in a \$3.22 million increase/decrease in comprehensive loss.

(c) Price risk

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

13. Capital Management

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

There were no changes to the Company's approach to capital management during the six month period ended May 31, 2017. The Company is not subject to externally imposed capital requirements.

14. Adjustment to Previously Reported Financial Information Due to Change in Presentation Currency

For comparative purposes, the consolidated statements of financial position as at November 30, 2016 and December 1, 2015 includes adjustments to reflect the changes in accounting policy resulting from the change in the presentation currency to the U.S. dollar and the expensing of previously capitalized exploration and evaluation costs. The amounts previously reported in Canadian dollars as shown below have been translated into U.S. dollars at the November 30, 2016 and December 1, 2015 USD/CAD exchange rates of 1.3424 and 1.3350, respectively.

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14. Adjustment to Previously Reported Financial Information Due to Change in Presentation Currency
(cont'd...)

	As previously reported in C\$	As restated in US\$
As at December 1, 2015		
Current assets	\$ 139,363	\$ 104,395
Non-current assets	967,276	724,573
Total assets	\$ 1,106,639	\$ 828,968
Current liabilities	\$ 104,072	\$ 77,959
Non-current liabilities	-	-
Total liabilities	\$ 104,072	\$ 77,959

	As previously reported in C\$	As restated in US\$
As at November 30, 2016		
Current assets	\$ 30,361	\$ 22,617
Non-current assets	-	-
Total assets	\$ 30,361	\$ 22,617
Current liabilities	\$ 80,617	\$ 60,054
Non-current liabilities	-	-
Total liabilities	\$ 80,617	\$ 60,054

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14. Adjustment to Previously Reported Financial Information Due to Change in Presentation Currency
(cont'd...)

For comparative purposes, the consolidated statement of loss and comprehensive loss for the three and six months ended May 31, 2016 includes adjustments to reflect the change in accounting policy resulting from the change in the presentation currency to the U.S. dollar. The amounts previously reported in Canadian dollars as shown below have been translated into U.S. dollars at the average USD/CAD exchange rate of 1.3000 and 1.3218 for the three and six month periods, respectively. The effect of the translation is as follows:

	As previously reported in C\$	As restated in US\$
For the three months ended May 31, 2016		
Expenses		
Advertising and promotion	\$ -	\$ -
Corporate listing and filing fees	8,526	6,558
Office and administration	643	495
Professional fees	(38)	(29)
Rent	17,702	13,616
Transfer agent fees	1,486	1,143
Wages and consulting fees	10,611	8,162
	(38,930)	(29,945)
Other income	2,267	1,744
Net loss	(36,663)	(28,201)
Translation adjustment	-	26,533
Comprehensive loss for the period	\$ (36,663)	\$ (1,668)

	As previously reported in C\$	As restated in US\$
For the six months ended May 31, 2016		
Expenses		
Advertising and promotion	\$ 315	\$ 227
Corporate listing and filing fees	8,685	6,672
Office and administration	2,325	1,706
Professional fees	2,396	1,723
Rent	18,128	13,923
Transfer agent fees	6,762	4,940
Wages and consulting fees	21,111	15,719
	(59,722)	(44,910)
Other income	2,267	1,744
Net loss	(57,455)	(43,166)
Translation adjustment	-	15,727
Comprehensive loss for the period	\$ (57,455)	\$ (27,439)

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15. Subsequent Events

Subsequent to May 31, 2017:

- a) The Company issued 53,333,333 common shares on the exercise of 53,333,333 previously issued subscription receipts as described in notes 4 & 10.
- b) 3,099,160 common shares were issued to Goldcorp on the exercise of Special Warrants in connection with the acquisition of Cerro Blanco and Mita Geothermal as described in notes 4 & 10.
- c) 2,552,699 units were issued on the conversion of notes in the principal amount of C\$3,829,075. Each unit consists of one share and one half warrant. Each whole warrant is exercisable at C\$2.00 per share for a period of two years.
- d) The Company completed a non-brokered private placement of 500,000 common shares at C\$1.50 per share for gross proceeds of C\$750,000 with key management (“Key Management”). In connection with the private placement, and the Company’s management compensation plan, the Company entered into loan arrangements with Key Management whereby the Company loaned Key Management C\$750,000 secured by 500,000 common shares of the Company. The loan is repayable on the earlier of 1) a change of control of the Company, 2) three years from the grant date of the loan or 3) the commencement of commercial production at Cerro Blanco after which time the loan may be forgiven at the request of Key Management.
- e) The Company granted 4,935,000 incentive stock options to certain directors, officers and consultants. The options granted are exercisable at C\$1.50/share for three years from the date of grant.
- f) 40,000 warrants were exercised for gross proceeds of \$10,360.