

Canadian Equity Research

18 October 2018

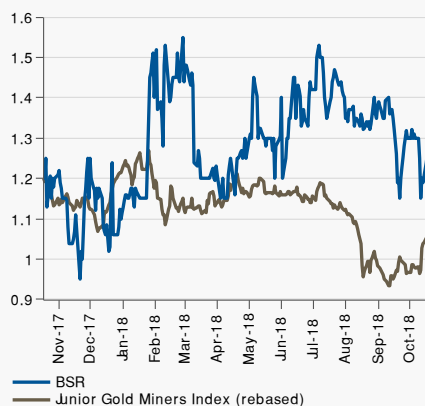
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SPECULATIVE BUY

PRICE TARGET C\$3.00
Price (17-Oct) C\$1.26
Ticker BSR-TSXV

52-Week Range (C\$): 0.95 - 1.60
 Avg Daily Vol (M) : 0.03
 Market Cap (C\$M): 80.4
 Shares Out. (M) : 63.8
 Enterprise Value (C\$M): 57.7
 Cash (C\$M): 22.7
 Long-Term Debt (C\$M): 0.0
 NAV /Shr (C\$): 3.04
 NAV /Shr (5%) (C\$): 3.89
 P/NAV (x) (C\$): 0.42



Priced as of close of business 17 October 2018

Bluestone is a development-stage natural resource company focused on the exploration and development of its 100% owned Cerro Blanco Gold project and Mita Geothermal project, both located in Guatemala. Cerro Blanco is a proposed underground gold mining operation located in southeast Guatemala approximately 160 kilometers by road from the capital, Guatemala City. Mita Geothermal is a geothermal energy resource located adjacent to Cerro Blanco.

Initiation of Coverage

Permitted and on the path to production

We are initiating coverage of Bluestone Resources Inc. with a C\$3.00/sh target price and a SPECULATIVE BUY rating. Bluestone is a junior exploration/development company focused on advancing into production its 100%-owned Cerro Blanco high-grade gold project, located in southeastern Guatemala.

Investment Highlights

- **A steal of a deal.** In early 2017, Bluestone acquired the permitted Cerro Blanco project from Goldcorp for US\$20M, as part of Goldcorp's broader district consolidation program. In total, the project has seen US\$230M in past infrastructure investments by Goldcorp, which includes 3km of underground development at Cerro Blanco, and initial testing/permitting at the adjacent Mita Geothermal project. Cerro Blanco is road accessible and is located within 8km of the national power grid.
- **A clear standout.** Cerro Blanco is one of the highest-grade permitted, undeveloped gold projects within the Americas, marked by a 1.2Moz M+I resource base grading 10.1g/t Au. The project is also a notable standout among its peers in terms of its low initial CAPEX of US\$171M and first quartile AISC of US\$490/oz (2017 PEA).
- **Robust economics.** Our Base Case model of the Cerro Blanco project highlights an after-tax NPV_{8%} of US\$292M and a 33% IRR, based on an applied diluted resource base of 5.61Mt grading 8.07g/t Au. Our model assumes a 1,250tpd throughput, an initial CAPEX of US\$200M, and a conservative 2022 start date. Our Upside Case, which includes consideration for an additional 20% exploration upside and an earlier 2021 start date, outlines an after-tax NPV_{8%} of US\$385M and a 33% IRR.
- **Well positioned to execute.** While Tahoe Resources' ongoing Escobal mine license suspension continues to cast a negative jurisdictional shadow over Guatemala, we are of the view that issues comparable to those which have plagued Tahoe could not be made in Bluestone's case. This, complemented by Bluestone's experienced management team and demonstrated commitment to CSR and the environment, positions the company well, in our view, to commission/operate the Cerro Blanco project in the near to medium term. We believe this outlook is further supported by Lundin Family Trusts' 36% ownership in Bluestone.
- **Potential near-term catalysts.** We highlight the results of the pending Cerro Blanco feasibility study (Q4/18), and subsequent project construction financing (mid-2019), as the next major re-rating/de-risking points for Bluestone.

Valuation. Our valuation of Bluestone is rooted in a US\$292M NPV_{8%} valuation of the Cerro Blanco project (CG forward curve, US\$1,415/oz LT Au) on a fully financed basis (US\$200M CAPEX, 50/50 debt to equity; equity at 10% discount to market and debt at 12%). Applying other non-operating and face value asset/liability adjustments, we derive a NAV of \$3.04/sh, which supports a rounded target price (nearest \$0.25/sh) of C\$3.00/sh. We rate Bluestone a SPECULATIVE BUY to reflect both the financing risk associated with a non-revenue generating company and the technical risk associated with a project for which final feasibility has yet to be demonstrated. We highlight Bluestone as a prospective investment for risk-tolerant investors.

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Figure 1: Bluestone Resources Inc. - Investment Summary

Bluestone Resources Inc. (BSR : TSXV)

October 17, 2018

Rated: SPECULATIVE BUY
Current Price: \$1.26
52-Wk Range: \$1.60/\$0.95
ADV (30-day): 28,538

Target Price: \$3.00
Projected Return: 138%
Basic Shares (M): 63.8
Market Cap (C\$M): 80.4
Ent. Value (C\$M): 57.7

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Company Summary

Bluestone is a development stage natural resource company focused on the exploration and development of its 100% owned Cerro Blanco Gold project and Mita Geothermal project, both located in Guatemala. Cerro Blanco is a proposed underground gold mining operation located in southeast Guatemala approximately 160 kilometers by road from the capital, Guatemala City. Mita Geothermal is a geothermal energy resource located adjacent to Cerro Blanco.

Cerro Blanco Resource

2018 (3.50g/t Au cut-off)	Tonnes	Gold		Silver	
	(Mt)	(g/t)	(Moz)	(g/t)	(Moz)
Measured	0.29	10.30	0.10	39.10	0.37
Indicated	3.43	10.00	1.11	37.80	4.16
M+I	3.72	10.10	1.20	37.90	4.53

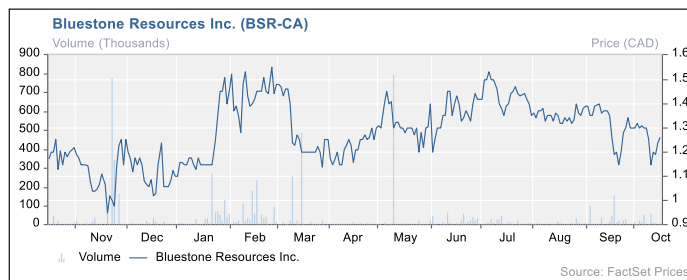
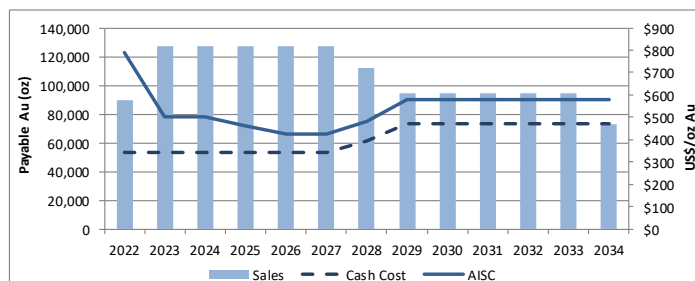
Inferred	1.37	8.10	0.36	23.60	1.04
Global Resource	5.09	9.53	1.56	34.04	5.57

Peer Comparison

Company	Ticker	Price (\$/sh)	Market Cap. (\$M)	AuEq Ev/Oz (US\$)	M+I Global
Osisko Mining Inc.	OSK-CA	\$2.86	\$686	\$797	\$166
Sabina Gold & Silver Corp.	SBB-CA	\$1.35	\$356	\$43	\$32
Barkerville Gold Mines Ltd.	BGM-CA	\$0.47	\$205	\$97	\$41
IDM Mining Ltd.	IDM-CA	\$0.07	\$29	\$29	\$27
Pure Gold Mining Inc.	PGM-CA	\$0.54	\$138	\$53	\$46
SilverCrest Metals, Inc.	SIL-CA	\$3.59	\$265	\$177	
Falco Resources Ltd.	FPC-CA	\$0.35	\$65	\$9	\$8
INV Metals Inc.	INV-CA	\$0.46	\$43	\$8	\$7
Rubicon Minerals Corporation	RMX-CA	\$1.25	\$83	\$216	\$59
Mean				\$157	\$63
Median				\$48	\$41
Bluestone Resources Inc.	BSR-CA	\$1.26	\$80	\$36	\$28
CG Global Explorer/Developer Comp.				\$53	\$26

Sales Profile (CG Base Case)

	2022E	2023E	2024E	2025E
CG Gold Price (US\$/oz)	\$1,374	\$1,415	\$1,415	\$1,415
CG Silver Price (US\$/oz)	\$16.14	\$16.14	\$16.14	\$16.14
Au Sales (oz)	89,335	127,622	127,622	127,622
Ag Sales (oz)	297,926	425,608	425,608	425,608
Net Sales (US\$M)	\$124	\$182	\$182	\$182
Cash Cost (US\$/oz Au)	\$344	\$345	\$345	\$345
AISC Cost (US\$/oz Au)	\$792	\$502	\$502	\$462



Major Shareholders

Lundin Family Trusts	36.0%
CD Capital	17.0%
Goldcorp	5.0%
APG Asset Management	4.3%
Ruffer LLP	2.9%
Franklin Advisers	2.7%
AGF Investments	2.1%
Sprott Asset Management	1.1%
Management and Directors	9.0%

Financial Summary

(Year Ended Dec. 31)

	2017A	2018E	2019E
Balance Statement (C\$M)			
Cash+eq.	\$30.2	\$12.5	\$107.9
Working Capital	\$28.9	\$10.9	\$106.3
Total Debt	\$0.0	\$0.0	\$0.0
Enterprise Value	\$50.2	\$67.9	(\$27.5)

Income Statement

Revenue	\$0.0	\$0.0	\$0.0
G&A	\$2.6	\$4.0	\$5.0
Net Income (Adj)	(\$8.4)	(\$17.6)	(\$15.0)
EPS	(\$0.25)	(\$0.28)	(\$0.08)

Cash Flow Statement

Cash Flow, Operating	(\$7.8)	(\$16.0)	(\$15.0)
Cash Flow, Investing	(\$23.3)	(\$1.5)	(\$5.0)
Cash Flow, Financing	\$57.8	\$0.0	\$115.4

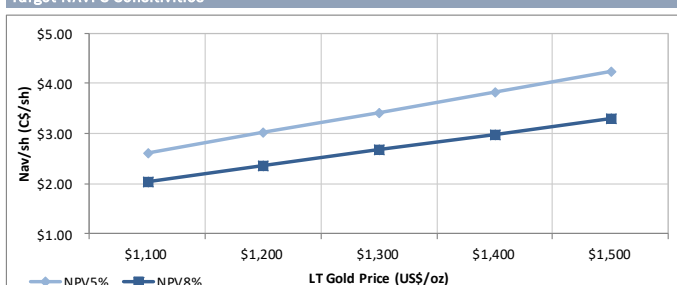
NAV & Target Generation

	(C\$M)	(C\$/sh)
Project NAV		
Cerro Blanco	\$380	\$1.92
Exploration Credit	\$44	\$0.22
Mita Geothermal	\$39	\$0.20
Total Project NAV	\$463	\$2.33

Corporate Adjustments	\$139	\$0.70
Corporate NAV	\$602	\$3.04

Target Price (Rounded)	\$3.00
Projected Return	138%

Target NAVPS Sensitivities



Source: Company Reports, FactSet, Canaccord Genuity estimates



Investment Thesis

Bluestone's flagship asset is the permitted Cerro Blanco gold project located in SE Guatemala.

Bluestone acquired the project from Goldcorp in 2017 for US\$20M.

Cerro Blanco is one of the highest-grade advanced-stage development project within the Americas.

The project is road accessible and within 8km of the national power grid.

Our Base Case model highlights a US\$292M NPV_{8%} and 33% IRR.

Lundin Family Trusts holds a 36% equity position in Bluestone.

We are initiating coverage of Bluestone Resources Inc. with a C\$3.00/sh target price and a SPECULATIVE BUY rating. Bluestone is a junior exploration/development company focused on advancing into production its 100%-owned Cerro Blanco high-grade gold project, located in southeastern Guatemala. The Cerro Blanco project is road accessible and is located within 8km of the national power grid.

Momentum building. Since acquiring Cerro Blanco from Goldcorp in early 2017 (US\$20M), Bluestone has made significant progress in repositioning the asset from an advanced-stage development project on care and maintenance, to one that is now actively on the path to production. This transition has been facilitated by Bluestone's ongoing detailed project review and updated technical studies, which with significant past infrastructure investments (US\$170M) now positions the permitted Cerro Blanco project for a construction decision in mid-2019.

- **Updated resource estimate.** In early September, Bluestone released the results of an updated resource estimate for the Cerro Blanco project, which incorporated an additional 13,000m of infill/confirmation-based drilling completed in 2017/2018. The more geologically constrained estimate outlines an M+I resource of 1.2Moz grading 10.1g/t Au, and an Inferred resource of 0.36Moz grading 8.1g/t Au.
- **Positive met optimization.** Recent metallurgical trade-off studies conducted by Bluestone have increased gold recoveries to 96%, up from 91% outlined in the 2017 PEA.
- **Established infrastructure.** The Cerro Blanco project has seen US\$170M in past infrastructure investments, which includes two underground declines from surface; 3km of underground development; two alimak vent raises; significant dewatering infrastructure and an operating water treatment facility. These past investments serve to significantly reduce (1) the project's initial CAPEX (2017 PEA CAPEX: US\$171M), (2) the associated financing risk, and (3) the overall project development timeline.
- **Robust economics.** Our Base Case valuation is centered on an applied diluted resource of 5.61Mt grading 8.07g/t Au (1.46Moz Au). We model a throughput of 1,250tpd, which yields a 13-year mine life producing on average 107,500oz/year. Assuming a CAPEX of US\$200M, OPEX of US\$102/t and a conservative 2022 start date, we derive an after-tax NPV_{8%} of US\$292M, an IRR of 33% and an AISC of US\$531/oz Au (CG forward curve, US\$1,415/oz LT Au).

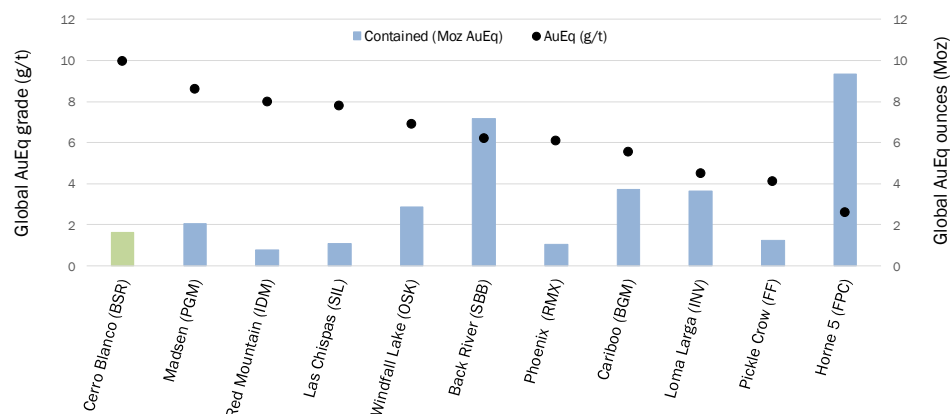
Well positioned to execute. Bluestone has assembled an experienced management team that is well positioned to develop, construct and operate the Cerro Blanco project (Appendix A). The company is led by Executive Chairman John Robins (founder/Chairman Kaminak Gold, sold to Goldcorp in 2016 for \$520M), and President/CEO Darren Klinck (previously EVP & Head of Corp Dev OceanaGold). Bluestone's management team is complemented by an industry-leading Technical Committee, with in-depth project development, mine construction and operations experience (Appendix B). We believe that our outlook with regard to the quality of the Cerro Blanco deposit, and Bluestone's capacity to commission/operate the project, is further supported by the Lundin Family Trusts' 36% ownership in the company.

Geothermal kicker. Included the acquisition of Cerro Blanco was the adjacent Mita Geothermal project. In total, Goldcorp spent US\$60M advancing the project, which included drilling 18 geothermal wells and permitting a 50MW power plant. Bluestone is currently conducting flow studies to assess the reservoir's capacity, with an outlook towards potentially generating low cost power for the Cerro Blanco gold project onsite.

Cerro Blanco is a clear standout amongst peer comparables given its high-grade, low CAPEX and low AISC.

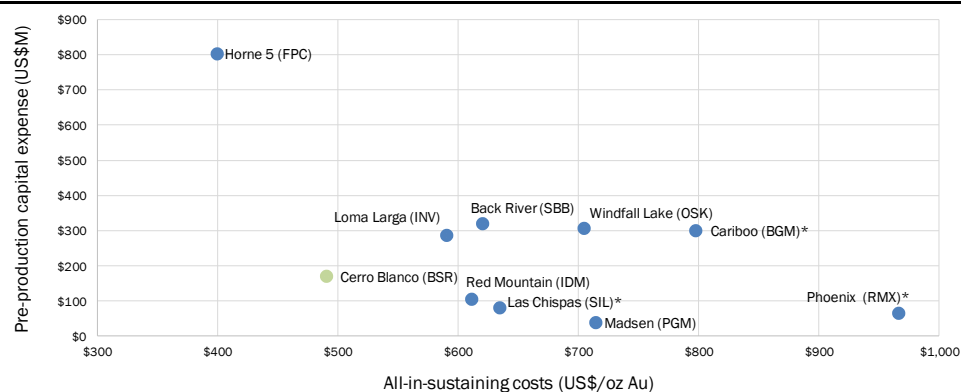
Comparables outlook. Cerro Blanco is a clear standout amongst its peer comparable group and is noted to be one of the highest grade, permitted gold development projects held by a junior that is not currently in construction/production (Figure 3). Relative to its peers, Cerro Blanco has one of the lowest projected AISC, with infrastructure investments made to date contributing to a low overall initial CAPEX (Figure 4). Bluestone currently trades at a discounted global in-situ valuation of US\$28/oz, relative to that of the peer group average of US\$64/oz (Figure 5).

Figure 3: Global resource profile comparables



Source: Company Reports, Canaccord Genuity estimates

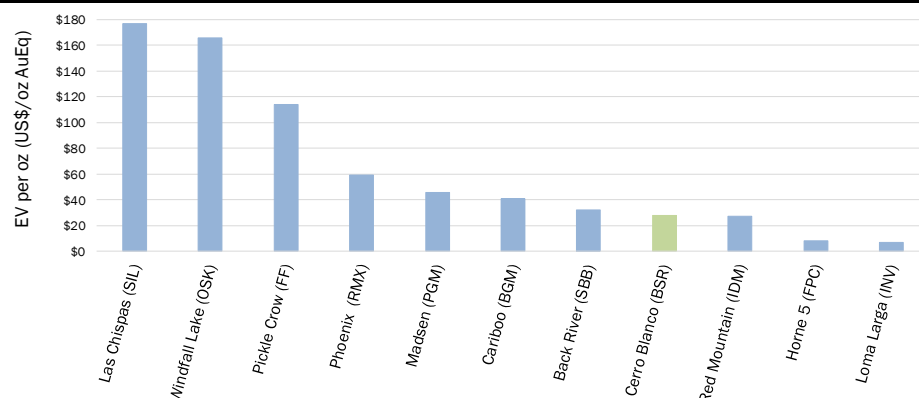
Figure 4: CAPEX and AISC comparables



Source: Company Reports, Canaccord Genuity estimates

*No economics on project currently, reported based on CG estimates

Figure 5: Global in-situ EV/oz comparables (based on primary asset)



Source: Company Reports, Canaccord Genuity estimates, FactSet

Addressing the elephants in the room

Cerro Blanco not expected to be subject to ILO 169 project consultation, as is now required at Tahoe's Escobal mine.

1) Tahoe implications. Tahoe Resources' ongoing license suspension at its 100% owned Escobal mine (dating back to July 2017) continues to cast a negative jurisdictional shadow over Guatemala. Overall, we do not expect that Bluestone's Cerro Blanco project will face similar issues.

At the core of the Escobal mine license suspension is the assertion by CALAS, an anti-mining organization, that the Guatemalan Ministry of Energy and Mines (MEM) failed to consult with the greater Xinka indigenous population as part of the project's original mine permitting consultation process. The contention of MEM and Tahoe is that consultation was not required given that there exists no established Xinka community within the local municipality, San Rafael Las Flores. A recent ruling on this matter by the Guatemalan Constitutional Court has indicated that while there exists no established Xinka community within the municipality of San Rafael Las Flores, consultation with the Xinka communities from the surrounding municipalities is required. This ruling reflects the multiple Xinka-related areas of cultural significance identified within the mine's designated area of influence. This consultation process (ILO 169) has been recently initiated by MEM and is expected to take 6-12 months.

As it relates to Bluestone, and the Cerro Blanco project, we do not expect that a similar claim could be made. This outlook is rooted in the 2007 EIA, in which contributing archeological studies are reported to have not identified any areas of cultural significance within Cerro Blanco's area of influence. Although not definitive, we find further contributing evidence in the fact that Cerro Blanco is a relatively more isolated project in comparison to that of Escobal, which is situated immediately adjacent to the town of San Rafael (Figures 6 & 7). That said, we have taken a conservative approach to our valuation of Cerro Blanco, and have added a 6-12-month commissioning delay to our Base Case model to reflect the potential for additional project consultation/studies.

We do not see significant risk associated with water management at Cerro Blanco.

2) Water management. Cerro Blanco has long been regarded as a "Hot Mine", owing to the project's high temperature and thermal gradients. In-situ rock temperatures at Cerro Blanco are reported to be 100-120°C in non-dewatered areas, with dewatering and ventilation decreasing rock temperatures to 30-50°C. As outlined within the 2017 PEA, portable spot coolers will be installed in active production and development areas, which will further reduce the air temperature to 28°C.

Overall, we view the high-temperature conditions at Cerro Blanco to be manageable, with well developed industry practices in place at a number of operating mines (e.g., B2Gold's El Limon mine in Nicaragua and Sumitomo's Hishikari mine in Japan). At present, ~40% of the project resource has been de-watered, which materially reduces the upfront project execution risk and provides a multi-year buffer prior to initiating an expanded dewatering program.

~40% of the current resource is dewatered.

Currently three surface wells and underground sumps (500-600gpm) are being utilized to maintain water levels at 417 meters above sea level (MASL) – (high-grade veins best developed between 200-500 MASL). Water is being treated at the established 1,500gpm water treatment facility, and discharged at levels well below that of legal limits. This practice, along with in-house and third-party water quality monitoring, has been ongoing since 2012.

As part of the pending feasibility study, Bluestone has conducted a more advanced hydrogeological investigation of the deposit to better characterize the aquifer, and assess future dewatering requirements. Initial estimates within the 2017 PEA outline a discharge rate of 4,000gpm (3,500gpm surface wells, 500gpm sumps) to meet the current mine plan, but note the potential for rates to be over twice that if the regional hydrogeological influence is significant.

Figure 6: Photo of Cerro Blanco project area (looking south); agriculture is the primary land-use surrounding the project site. The town of Asuncion Mita is located 5km SE of project, with smaller local communities at distances of 2-3km.



Source: Company Reports, Canaccord Genuity estimates

Figure 7: Photo of Tahoe Resources' Escobal Mine, located ~80km NE of Cerro Blanco. Escobal Mine is located in close proximity to the town of San Rafael.



Source: Tahoe Resources

Bluestone is currently completing a feasibility study on the Cerro Blanco project, to be released Q4/18.

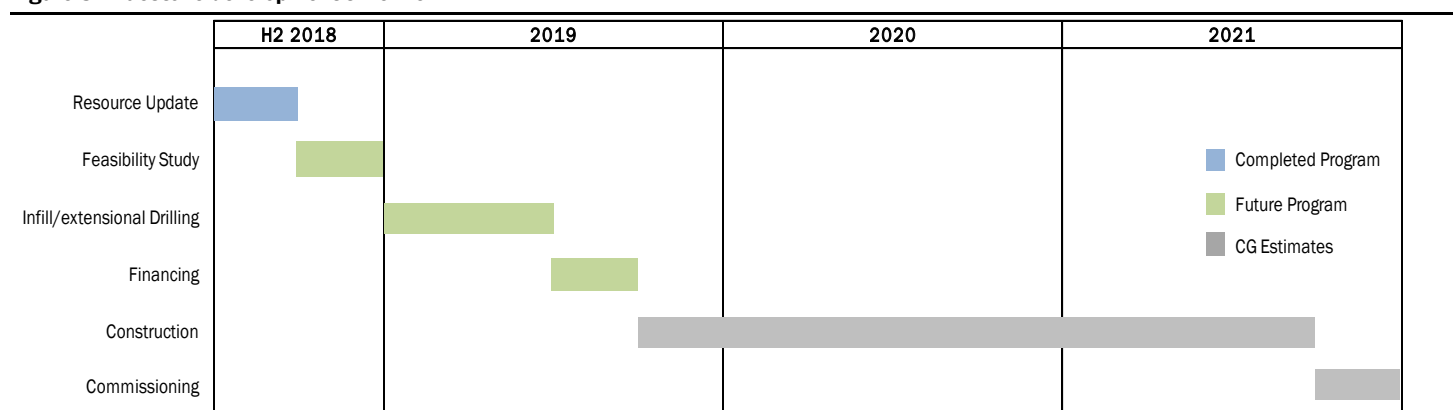
Path forward. At present, Bluestone is completing a feasibility study on the Cerro Blanco project, which will incorporate the results of the updated resource estimate and recent project optimization studies. The results of the feasibility study are scheduled to be released in Q4/18 and are expected to be in line with those of the 2017 PEA (105Koz Au over 9 years, US\$490/oz AISC, US\$317 NPV_{5%} and 44% IRR).

Moving forward, Bluestone has highlighted two areas for potential follow-up investigation prior to issuing a formal construction decision. The first is a follow-up drill program centered on converting a large portion of the 0.36Moz Inferred resource to the M+I category, which has the potential to materially increase the project's mine life. The second area of focus would be to develop key areas within the mine plan, with the goal of providing further support for the selected mining methods and deposit model. Overall, we view both potential programs as a prudent means to further de-risk the Cerro Blanco project, which could ultimately yield more favorable financing terms.

Our near-to-medium-term outlook for Bluestone is centered on the company commissioning and operating the Cerro Blanco project, while longer-term we highlight two potential paths forward:

- **Build a mid-tier producer.** Overall, we view Cerro Blanco to be a potential company-building asset, which could form the foundation for future M&A and an expanded production profile. This outlook is not only supported by President and CEO Darrin Klinck's past involvement in developing OceanaGold from a single asset company, but also by a broader industry trend towards project consolidation and asset rationalization (e.g., Equinox Gold).
- **M&A.** Our outlook for Bluestone as a potential acquisition target is longer term, once Cerro Blanco is fully in production. This outlook is rooted in Guatemala's current jurisdictional overhang, which in our view will require demonstrated resolution prior to attracting interest from potential acquirers. The most obvious acquirer of Bluestone, in our view, would be Lundin Gold, which is currently constructing the Fruta del Norte project in Ecuador. In addition to consolidating Lundin's interest in each of the companies, an acquisition of Bluestone could materially expand Lundin Gold's projected low-cost production profile within Latin America. Other potential long-term acquirers of Bluestone include Equinox Gold and Leagold.

Figure 8: Bluestone development timeline



Source: Company Reports, Canaccord Genuity estimates

Valuation Overview

As detailed within the [Valuation and Target Generation](#) section of the report, our valuation of Bluestone is centered on the Cerro Blanco project. Overall, we derive a Base Case US\$292M NPV_{8%} valuation for the Cerro Blanco project, which is rooted in an applied diluted resource base of 5.61Mt grading 8.07g/t Au and 29.1g/t Ag. Our valuation of Bluestone includes a US\$200M initial CAPEX financing, assuming a 50/50 debt-to-equity split (12% debt, equity 10% discount to market).

Applying other non-operating and face value asset/liability adjustments, we derive a NAV of C\$3.04/sh, and a rounded target price (nearest \$0.25/sh) of C\$3.00/sh.

Figure 9: Bluestone valuation summary

	C\$M	C\$/sh
Project NAV		
Cerro Blanco	\$380	\$1.92
Exploration Credit	\$44	\$0.22
Mita Geothermal	\$39	\$0.20
Total Project NAV	\$463	\$2.33
Corporate Adjustments		
Working Capital	\$21	\$0.10
ITM Options & Warrants	\$1	\$0.01
Exploration/Pre-Dev. Expense	(\$32)	(\$0.16)
Exploration/Pre-Dev. Financing	\$20	\$0.10
Construction Equity Financing	\$130	\$0.65
Corporate Adjustments	\$139	\$0.70
Corporate NAV	\$602	\$3.04
Shares (M): O/S+ITM+Financings		198.3

Source: Canaccord Genuity Estimates

We generate a rounded target price of C\$3.00/sh, which supports a 138% projected return and a **SPECULATIVE BUY** rating.

Our Upside Case highlights a 189% potential return to market.

Scenario Analysis

To our Base Case valuation of Bluestone, we provide consideration for both upside and downside cases. Below we provide a high-level summary of each case, which is detailed further within the Valuation section of the report.

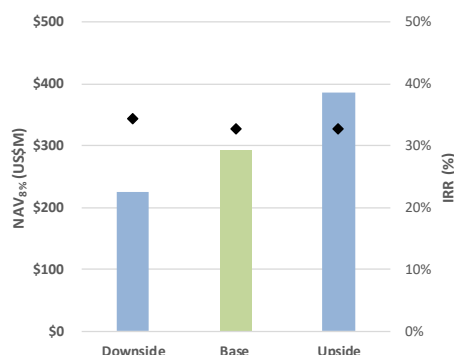
- **Base Case** – centered on an adjusted diluted resource base of 5.61Mt grading 8.07g/t Au and 29.1g/t Ag, a 1,250tpd throughput, and a 2022 start date.
- **Downside Case** – same as our Base Case but provides no consideration for Inferred category resources and assumes a start date of 2023 (extended project consultation).
- **Upside Case** – same as our Base Case but assumes 20% exploration upside to that of the applied resource and a 2021 start date (no commissioning delay).

Figure 10: Scenario analysis NAVPS



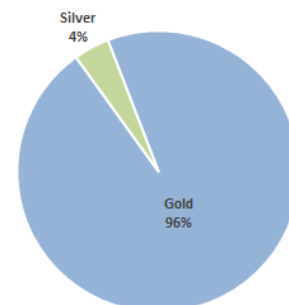
Source: Canaccord Genuity estimates

Figure 11: Scenario analysis NPV_{8%} and IRR



Source: Canaccord Genuity estimates

Figure 12: Base Case payables



Source: Canaccord Genuity estimates

Project Overview

Bluestone's flagship property is its 100% owned Cerro Blanco project located in the Jutiapa District in southern Guatemala, 160km SE of Guatemala City. Cerro Blanco is road accessible and is located within 8km of the national power grid. The nearest town is Asuncion Mita (pop. ~15,000), located ~5km to the east.

Bluestone acquired the Cerro Blanco and Mita Geothermal projects from Goldcorp in 2017.

In total Goldcorp spent US\$230M on both projects.

Current data suggests that the Mita Geothermal project has the potential to produce 12MW. A projected deeper reservoir may add an additional 20-30MW.

Permitting

The Cerro Blanco project currently has all the necessary permits to begin development and mine operations. An exploitation license, granted in 2007 for a period of up to 25 years, allows Bluestone to mine/process gold and silver within the defined concession (15.25km²) at a rate of 1,000tpd. This license includes all the water rights and rights of way associated with the property. As the result of ongoing optimization studies associated to the upcoming feasibility study (Q4/18), Bluestone plans to increase the permitted throughput to 1,250tpd, requiring a minor amendment to the current EIA (H1/19).

In addition, Bluestone will look to construct a new 5.5km long access road that will bypass the nearby town of Asuncion Mita. This newly proposed municipal road stands to benefit not only the mine, but also outlying communities which currently do not have year-round road access. Road permitting is expected to be completed at the municipal level.

Cerro Blanco Acquisition

Bluestone acquired the Cerro Blanco project, which includes the Mita Geothermal project, from Goldcorp in 2017. Total consideration included US\$20M cash (US\$2M restricted for Marlin equipment purchase), a 1% NSR royalty, a future US\$15M cash payment (six months after commercial production), a 4.9% equity position in Bluestone, and 258,805 common share purchase warrants priced at \$2.00/sh (2-year term).

Previous investments in the Cerro Blanco gold project made by Goldcorp total US\$170M, and include two underground declines from surface; 3km of underground development; two alimak vent raises; and significant dewatering infrastructure and an operating water treatment facility. In addition, Bluestone acquired a long list of underground/surface mining equipment from Goldcorp's decommissioned Marlin mine for US\$2.4M (tied to US\$2M acquisition-restricted cash).

In addition to its investments in the Cerro Blanco gold project, Goldcorp spent US\$60M on the Mita Geothermal project (2009-2012). The company drilled 18 geothermal wells (four production) immediately to the east of the Cerro Blanco deposit, and permitted a 50MW geothermal power plant. Initial review of the data suggests there is potential to produce up to 12MW, with a deeper projected (untested) geothermal reservoir (2,000-3,000m) potentially contributing an additional 20-30MW. Bluestone has more recently initiated a flow testing program on select wells to support a new reservoir calculation. Overall, the Mita Geothermal project has positive implications in terms of potentially generating low-cost onsite power for the Cerro Blanco gold project (2017 PEA: avg. 11.2MW).

Figure 13: Underground/surface equipment



Source: Canaccord Genuity

Figure 14: Truck shop



Source: Canaccord Genuity

Figure 15: Cooling ponds



Source: Canaccord Genuity

Figure 16: Operating water treatment plant



Source: Canaccord Genuity

Figure 17: Cerro Blanco north portal



Source: Canaccord Genuity

Figure 18: Geothermal flow testing



Source: Company Reports

Project History

- Gold mineralization at Cerro Blanco was first discovered in 1997, by Mar-West Resources while examining alteration zones near active hot springs in the area. Mar-West conducted surface geochemical/geophysical surveys and drilled nine shallow RC holes (100-150m deep).
- In late 1998, Glamis Gold acquired Mar-West Resources (7.5M shares, \$6.7M cash). In total, approximately 42,711m (233 holes) were drilled on the property between 1998-2006, which outlined a global resource of 1.93Moz grading 15.52g/t Au (8.0g/t AuEq cut-off).
- In November 2006, Goldcorp acquired Glamis Gold (\$8.6B). Extensive drilling, mapping and underground development was conducted at Cerro Blanco by Goldcorp. The company's most recent resource statement outlined a global resource of 1.07Moz grading 11.79g/t Au (4.0g/t Au cut-off)
- Between 2006-2013, Goldcorp spent over US\$170M on site infrastructure including two underground declines, ~3km of development and an operating water treatment facility.
- In early 2017, Bluestone entered into an agreement with Goldcorp to acquire a 100% interest in both the Cerro Blanco and adjacent Mita Geothermal projects. Shortly thereafter, Bluestone released a PEA and an updated resource estimate (1.29Moz grading 9.96g/t Au global, 3.75g/t Au cut-off). The PEA outlined a 9-year mine life, with an initial CAPEX of US\$170.8M, an after-tax NPV_{5%} of US\$317 and a 43.9% IRR.
- Since acquiring the property, Bluestone has conducted 12,654m (58 holes) of infill/confirmation-based drilling and has collected 288 channel samples. The results of this work, along with detailed geological/structural studies, were incorporated into the recently released updated project resource estimate (1.56Moz grading 9.53g/t Au, 3.5g/t Au cut-off).

Figure 19: Cerro Blanco project looking west

Source: Company Reports, Canaccord Genuity estimates

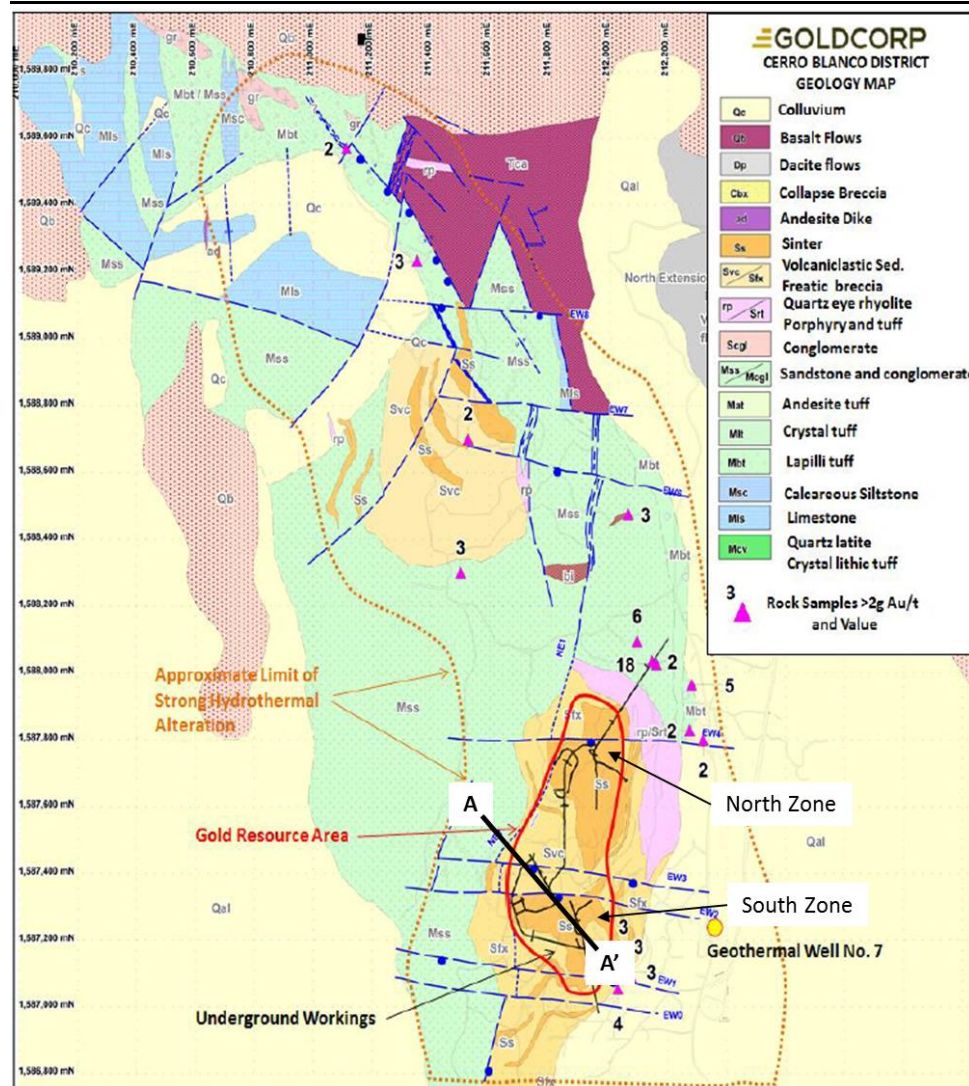
Cerro Blanco is a preserved low sulfidation epithermal deposit.

Geology/Mineralization

The Cerro Blanco project is hosted within the active Central American volcanic arc and is located ~50km southeast of the major Jocotan regional fault. Cerro Blanco is classified as a low sulfidation, hot springs-related, epithermal gold-silver deposit. Gold-silver mineralization is hosted within predominantly moderate to steeply dipping quartz-adularia-calcite veins, which are emplaced within a sequence of gently dipping siltstones (dominate), limestones, conglomerates and andesitic tuffs (Mita Unit). This geological package is overlain by ~100m of silicified conglomerates and sinter beds (Salinas Unit), which provides evidence of a preserved epithermal system below.

The Cerro Blanco resource is located at the south end of a broader 3km long by 1km wide hydrothermal alteration footprint, which hosts several gold occurrences (Figure 20). The defined resource is situated under a small hill (sinter cap) and is confined to an area measuring ~400m by 800m. The bulk of the delineated high-grade veins occurs as two upward-flared vein arrays (North and South Zones) that converge at depth into feeder veins (Figure 21).

Figure 20: Cerro Blanco district geology map



Source: Company Reports, Canaccord Genuity estimates

Figure 3

Platform 9W NW 9875
UGCB18-92 UGCB18-96
UGCB18-98 A - A'

Cerro Blanco Project

G O L D

> 10 g/t 3 - 5 g/t

5 - 10 g/t < 3 g/t

VN-27 Quartz-Adularia Vein

0 50 metres

Bluestone RESOURCES INC.

15.18 g/t Au / 138.7 g/t Ag
3.7m

9.6 g/t Au / 34.9 g/t Ag
21.4m
34.1 g/t Au / 132.2 g/t Ag
3.8m

5.2 g/t Au / 13 g/t Ag
1.8m

2.9 g/t Au / 14.6 g/t Ag
1.0m

8.0 g/t Au / 33.8 g/t Ag
3.5m

12.8 g/t Au / 10.8 g/t Ag
5.4m

4.3 g/t Au / 18.3 g/t Ag
1m

6.8 g/t Au / 81.1 g/t Ag
1m

4.6 g/t Au / 14 g/t Ag
2.3m

3.5 g/t Au / 30.8 g/t Ag
1m

9.9 g/t Au / 8.7 g/t Ag
2.1m

28.6 g/t Au / 112 g/t Ag
1m

4.2 g/t Au / 11 g/t Ag
1m

3.6 g/t Au / 12.8 g/t Ag
3.8m

11.5 g/t Au / 48.6 g/t Ag
13m
29.5 g/t Au / 137.5 g/t Ag
3.9m

7.1 g/t Au / 30.5 g/t Ag
5m

4.3 g/t Au / 11.1 g/t Ag
4.3m

UGCB18-92 EOH 175.26m

UGCB18-96 EOH 151.18m

UGCB18-98 EOH 154.56m

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VS-23

VS-24

VS-31

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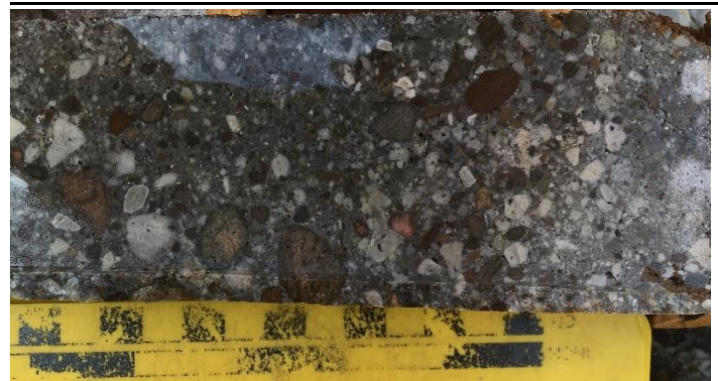
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VS-328

Figure 22: Mineralized vein with intense silver sulphide banding, locally semi-massive, with visible gold. Sample from 1.00m drill core interval grading 104.0g/t Au and 371.0g/t Ag, starting at 55.2m.



Figure 23: Mineralized conglomerate from upper sinter/conglomerate beds (dark orange Figure 21). Sample from 1.80m drill core interval grading 3.6g/t Au and 4.2g/t Ag, starting at 47.9m.



Precious Metals - Developer/Explorer 15

2018 resource estimate outlined a global gold resource of 1.56Moz grading 9.53g/t Au (at 3.5g/t COG).

Project Resource

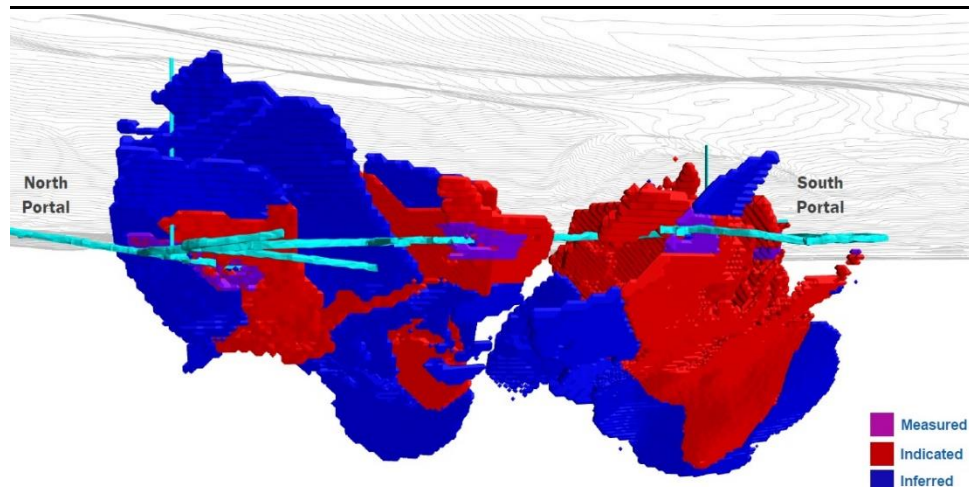
Bluestone recently released an updated resource estimate for the Cerro Blanco project (Figure 24), which outlined a global resource base of 5.1Mt grading 9.53g/t Au and 34.0g/t Ag at a 3.5g/t Au cut-off (73% M+I). The resource estimate was based on 129,231m of drilling (580 holes), which included 12,654m (58 holes) of infill/confirmation-based drilling completed by Bluestone in 2017/2018. The estimate was calculated utilizing grade caps of 110g/t Au and 600g/t Ag, a parent block size of 5*5*1m (sub-block 1*1*0.1m), and Ordinary Kriging interpolation.

Figure 24: 2018 Cerro Blanco resource estimate (3.5g/t Au cut-off)

Category	Tonnes (Mt)	Gold (g/t)	Silver (g/t)	AuEq (g/t)	Gold (Moz)	Silver (Moz)	AuEq (Moz)
Measured	0.29	10.30	39.10	10.80	0.10	0.37	0.10
Indicated	3.43	10.00	37.80	10.48	1.11	4.16	1.16
Inferred	1.37	8.10	23.60	8.40	0.36	1.04	0.37
Total =	5.09	9.53	34.04	9.96	1.56	5.57	1.63

Source: Company Reports, Canaccord Genuity estimates
Mineral resources are reported at a cut-off grade of 3.5g/t Au assuming: metal price of US\$1,250/oz Au and US\$16/oz Ag, and a number of operating cost and recovery assumptions, including a contingency factor.

Figure 25: Cerro Blanco resource – long section highlighting resource category distribution



Source: Company Reports

Lower cut-off highlights the potential for a bulk tonnage open pit operation.

While Cerro Blanco is currently being advanced as a high-grade underground project, the recent resource update also highlighted a lower grade bulk tonnage estimate (Figure 26), which is potentially amenable to open pit mining. While this resource has clear implications in-terms an expanded production profile (additional 2.17Moz AuEq), we believe that any potential consideration to an open pit mine plan would be longer-term once the project is in production. This is based on the outlook that it would be easier to re-permit and finance (higher CAPEX) an open pit project once in production.

Figure 26: 2018 Cerro Blanco bulk tonnage resource estimate (0.5g/t Au cut-off)

Category	Tonnes (Mt)	Gold (g/t)	Silver (g/t)	AuEq (g/t)	Gold (Moz)	Silver (Moz)	AuEq (Moz)
Measured	12.37	2.30	11.00	2.44	0.91	4.43	0.97
Indicated	48.22	1.30	6.10	1.38	2.08	9.38	2.20
Inferred	18.53	1.00	5.00	1.06	0.58	3.00	0.62
Total =	79.12	1.40	6.61	1.49	3.57	16.82	3.79

Source: Company Reports, Canaccord Genuity estimates
Mineral resources are reported at a cut-off grade of 0.5g/t Au assuming: metal price of US\$1,250/oz Au and US\$16/oz Ag; recoveries of 95% Au and 88% Ag; operating costs of \$2.00/t mining, \$13.00/t milling and \$1.50/t G&A; and a pit slope of 45°. Resource estimate utilized 110g/t Au and 600g/t Ag grade caps, 10*10*10m blocks and Ordinary Kriging interpolation

Primary mining method will be longhole open stoping.

Mining Method

As outlined in the 2017 PEA, a combination of longitudinal longhole stoping and drift and fill underground mining methods with cemented paste and rock backfill will be utilized at Cerro Blanco. Longhole stoping will be the primary method of extraction, focused on the steeper and thicker portions of the deposit (~88% of total production), while drift and fill will target the shallower dipping/less continuous mineralized zones (~12% of total production). The longhole stopes are designed to be up to 30m long and 30m tall with an average width of ~11.5m. Total mining dilution is estimated to be 14%, based on 0.5m of overbreak on the hanging and footwall.

The deposit will be accessed from surface via a series of ramps, with all ore/waste to be trucked out of the mine. It should be noted that since the mine plan uses all of the waste rock as cemented rock fill or aggregate in paste backfill, there is no need for surface stockpiles of waste rock.

Figure 27: Cerro Blanco mine plan long section (2017 PEA)



Source: Company Reports

Recent metallurgical studies have increased gold recoveries to 96%, previously 91%.

Metallurgy and Processing

Results from recent metallurgical test work completed on drill core samples from Cerro Blanco indicate improved mineral recoveries from that of the 2017 PEA. Through an optimized flowsheet including pre-oxidation, a finer grind size (P_{80} of 50 μ m compared to 75 μ m) and a shorter retention time (48 hours vs. 96 hours previously), gold recoveries have increased to 96.6% (91.4% previously). The optimized flowsheet will now incorporate a carbon in pulp (CIP) circuit as opposed to Merrill Crowe recovery, potentially reducing the overall capital and operating costs associated with processing.

Tailings will be stored in a dry stack tailings facility.

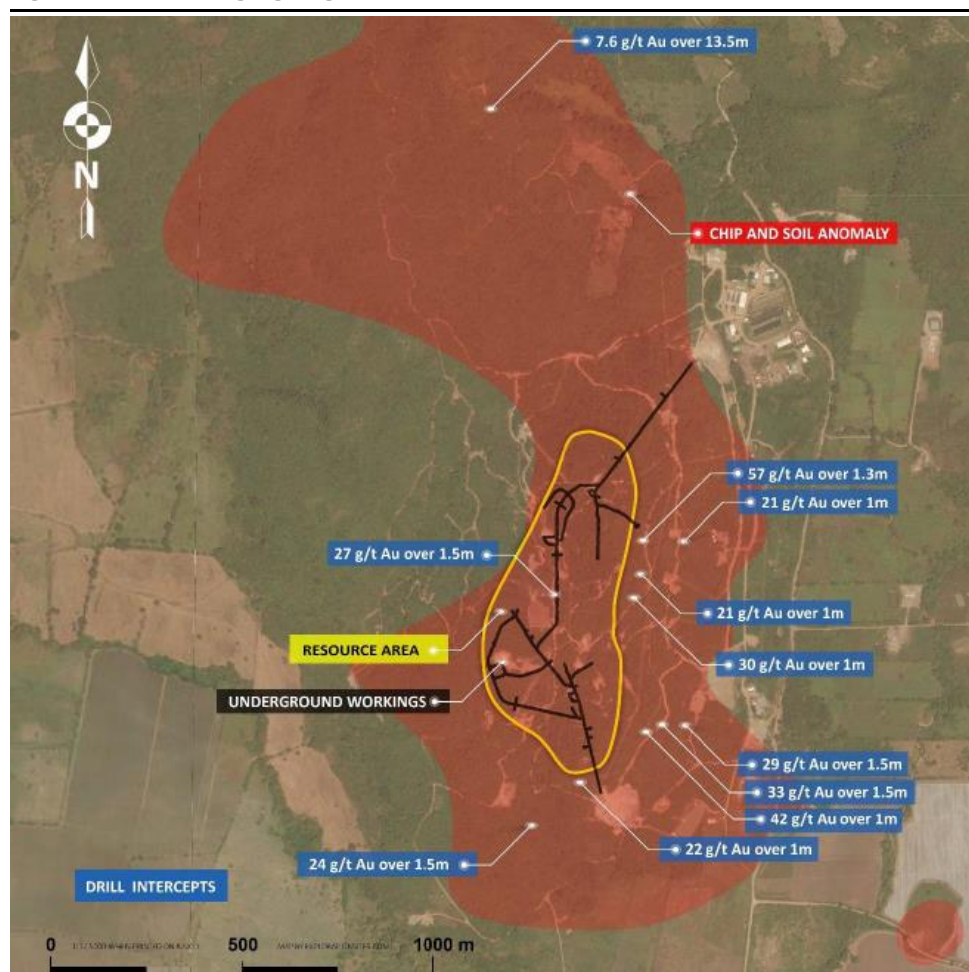
The updated flowsheet outlines a throughput of 1,250tpd incorporating 3-stage crushing and grinding followed by pre-oxidation, cyanide leaching and six hours of carbon in pulp to recover gold and silver. Tailings will subsequently be pressed into filtered cakes, reducing the moisture content to 18%, and then hauled to either the dry stack tailings facility or the paste backfill plant. The results of this recent test work and the optimized flowsheet will be published within the pending Cerro Blanco feasibility study, the results of which are expected to be released in Q4/18.

Exploration Upside

The Cerro Blanco project hosts multiple levels of exploration upside, which include:

- Near deposit. With an improved understanding of the controls of mineralization at Cerro Blanco, there exists the potential to locally expand the project's resource with targeted infill drilling, and additional step-out drilling to the north and south.
- Local exploration. We view the greater Cerro Blanco 3km by 1km hydrothermal alteration footprint as a prospective target for the potential discovery of additional center(s) of mineralization. This is evidenced by the high-grade drill intercepts and surface anomalies located outside of the project's resource area (Figure 28).
- Regional exploration. As part of the Cerro Blanco project acquisition, Bluestone acquired all of Goldcorp's in-country exploration datasets. While grassroots in nature, the datasets highlight multiple regional anomalies for follow-up investigation.

Figure 28: Plan map highlighting exploration upside at Cerro Blanco



Source: Company Reports

Valuation and Target Generation

Valuation Overview

Our valuation of the Cerro Blanco project is rooted in the September 2018 resource estimate, at the 3.5g/t Au cut-off. Resource adjustments include a 30% Inferred resource discount, and a conservative 20% dilution at zero grade. Applied pricing assumptions are centered on the 2017 Cerro Blanco PEA.

As outlined in Figure 29, our Base Case valuation of the Cerro Blanco project is centered on a 1,250tpd operation, producing on average 107,500oz Au/year, over 13 years. We assume a conservative start date of 2022, which provides a 12-month buffer for additional potential project consultation and general commissioning delays.

Along with our Base Case valuation of Cerro Blanco, we provide consideration for both upside and downside cases (Figure 29). Our Downside Case is the same as our Base Case but provides no consideration for Inferred category resources and assumes a start date of 2023 (extended project consultation/studies). Our Upside Case is the same as our Base Case but models an additional 20% exploration upside and assumes a start date of 2021 (no commissioning delay).

Figure 29: Cerro Blanco Base Case valuation and scenario analysis

	Unit	PEA	Downside	CG Base	Upside
Price Assumptions					
Long-Term Gold Price	US\$/oz	\$1,250	\$1,415	\$1,415	\$1,415
Long-Term Silver Price	US\$/oz	\$16.00	\$16.14	\$16.14	\$16.14
Operating Assumption					
Start Date	yr	-	2023	2022	2021
Mine Life	yr	9	10	13	15
Throughput	tpd	1,250	1,250	1,250	1,250
Mill Feed	Mt	3.98	4.46	5.61	6.74
Gold Grade	g/t	8.14	8.42	8.07	8.07
Silver Grade	g/t	28.0	31.6	29.1	29.1
Gold Payable	Moz	0.95	1.15	1.38	1.66
	oz/yr	105,556	111,198	107,519	107,936
Silver Payable	Moz	3.11	3.98	4.62	5.54
	oz/yr	345,444	385,642	358,566	359,957
Cost Assumption					
OPEX	US\$/t feed	\$93	\$102	\$102	\$102
Sustaining	US\$M	\$105	\$157	\$183	\$208
Initial CAPEX	US\$M	\$171	\$200	\$200	\$200
Cash Cost	US\$/oz Au	\$372	\$380	\$399	\$399
AISC	US\$/oz Au	\$490	\$517	\$531	\$524
Project Economics (after-tax)					
NPV _{5%}	US\$M	\$317	\$338	\$423	\$537
NPV _{8%}	US\$M	\$261	\$224	\$292	\$385
IRR	%	44%	34%	33%	33%

Source: Canaccord Genuity estimates

Figure 30: Base Case 5-year mine model summary

	2022	2023	2024	2025	2026
Payable Au (oz)	89,335	127,622	127,622	127,622	127,622
Payable Ag (oz)	297,926	425,608	425,608	425,608	425,608
Revenue (US\$M)	\$124	\$182	\$182	\$182	\$182
Net Income (US\$M)	\$55	\$94	\$74	\$76	\$76
CF after-tax (US\$M)	\$37	\$105	\$85	\$92	\$97

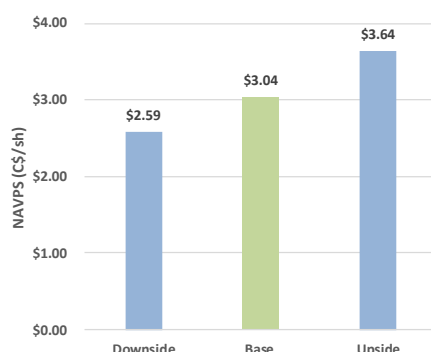
Source: Canaccord Genuity estimates

Figure 31: Base Case sensitivities - after-tax NPV_{8%} (US\$M)

	-10%	-5%	0%	5%	10%
Long-term gold price	230	260	292	327	361
IRR	29%	33%	33%	38%	41%
Gold grade	\$221	\$255	\$292	\$332	\$371
CAPEX	\$311	\$302	\$292	\$282	\$272
OPEX	\$313	\$303	\$292	\$281	\$270

Source: Canaccord Genuity estimates

CG Scenario Analysis - NAVPS



Source: Canaccord Genuity Estimates

We generate a rounded target price of C\$3.00/sh, which supports a 138% projected return and a SPECULATIVE BUY rating.

Our Upside Case highlights a 189% potential return to market.

Target Generation

As highlighted in Figure 29, our NPV_{8%} Base Case Cerro Blanco project valuation totals US\$292M (C\$380, assuming 1.30 US\$/C\$). Given that Guatemala is not an established mining jurisdiction, we utilize an 8% discount rate in our valuation of Cerro Blanco. This is in contrast to the 6-7% rate utilized for advanced-stage precious metal development projects within our coverage universe.

In our valuation of Cerro Blanco we include a \$44M exploration credit to reflect the project's regional scale exploration upside, and the project's broader resource profile that may be amenable to open pit mining longer-term. Our applied credit is centered on a 2.0Moz in-situ resource base, with an applied 50% discount to CG's global explorer/developer in-situ comparables average of US\$33.66/oz.

Given that the scope and associated economics of the Mita Geothermal project have yet to be defined, we value the project at a 50% discount to the US\$60M in past project investments.

Our valuation of Cerro Blanco includes a \$20M exploration/pre-development equity financing and US\$200M construction financing (50/50 debt-equity). In both cases we assume that equity is priced at a 10% discount to market (\$1.15/sh), with the construction debt financed at 12%.

Applying face value asset/liability adjustments and a \$32M exploration and pre-development expense, we derive a NAV of \$3.04/sh, and a rounded target price (nearest \$0.25/sh) of C\$3.00/sh.

Figure 32: Bluestone Resources valuation summary

	C\$M	C\$/sh
Project NAV		
Cerro Blanco	\$380	\$1.92
Exploration Credit	\$44	\$0.22
Mita Geothermal	\$39	\$0.20
Total Project NAV	\$463	\$2.33
Corporate Adjustments		
Working Capital	\$21	\$0.10
ITM Options & Warrants	\$1	\$0.01
Exploration/Pre-Dev. Expense	(\$32)	(\$0.16)
Exploration/Pre-Dev. Financing	\$20	\$0.10
Construction Equity Financing	\$130	\$0.65
Corporate Adjustments	\$139	\$0.70
Corporate NAV	\$602	\$3.04
Shares (M): O/S+ITM+Financings		198.3

Source: Canaccord Genuity Estimates

Valuation Sensitivity

Below we highlight the upside to our valuation associated with higher gold prices, reduction in the applied discount rate, and more favorable financing terms.

Figure 33: Corporate NAVPS long-term gold price sensitivity

		LT Gold Price (US\$/oz)				
		\$1,250	\$1,300	\$1,350	\$1,415	\$1,450
Discount	5%	\$3.22	\$3.42	\$3.62	\$3.89	\$4.03
	8%	\$2.51	\$2.67	\$2.83	\$3.04	\$3.15
	10%	\$2.14	\$2.28	\$2.41	\$2.59	\$2.69

Source: Canaccord Genuity estimates

Figure 34: Corporate NAVPS project financing sensitivity

		Debt/Equity				
		30/70	40/60	50/50	60/40	70/30
Equity	\$1.05	\$2.39	\$2.53	\$2.68	\$2.88	\$3.13
	\$1.26	\$2.74	\$2.88	\$3.04	\$3.23	\$3.48
	\$1.45	\$3.03	\$3.17	\$3.32	\$3.52	\$3.75
Debt	12%	\$2.74	\$2.88	\$3.04	\$3.23	\$3.48
	14%	\$2.73	\$2.86	\$3.00	\$3.18	\$3.40

Source: Canaccord Genuity estimates

Investment Risks

In addition to the usual risks to target prices associated with commodity pricing, exchange rates, and mineral exploration/development, we highlight the following:

- **Financing Risk** – As a pre-cash flow development company, Bluestone is reliant on the capital markets to remain a going concern. At present, the company has a cash position of ~US\$14M and is well positioned to continue to advance its Cerro Blanco project in the near term. However, we note that there is no guarantee that Bluestone will be able to access capital markets in the future, as a result of potential changes in market sentiment/pricing and/or concerns involving project feasibility.
- **Shareholder Dilution** – Our valuation of Bluestone includes the associated share dilution of US\$200M in initial project CAPEX financing (50/50 debt-to-equity), as well as an interim \$20M exploration/pre-development equity financing. In total, these two financings mark a projected 67% share dilution from current levels. We note the potential for even higher dilution should equity be financed at lower than projected levels, and/or if initial CAPEX is financed at >50% equity (Figure 34).
- **Resource Conversion** – Our valuation of Bluestone incorporates 70% of the Cerro Blanco Inferred category resource into our mine model. We note that there is no guarantee that future drilling will be successful in converting such resources to a higher level of confidence suitable for mine planning. As such, a failure to do so could negatively impact our valuation.
- **Development Risk** – In our valuation of Bluestone, we utilized several assumptions in our estimation of both the capital and operating costs for the Cerro Blanco project. The forecasted economics for this project have the potential to incur higher development costs/overruns, procurement delays, permitting issues, and other associated factors that could adversely impact our valuation of Bluestone.
- **Operational Risk** – Our forecasts are based upon technical data, guidance from the company and our own knowledge and experience with regard to the operation of individual mining projects. We note the potential for operational and financial performance to change rapidly due to weather-related issues, unexpected changes in minerology and general unforeseen operational difficulties.
- **Regulatory Risk** – While the Cerro Blanco project is permitted, we do highlight the potential for additional project consultation and/or technical studies to be required. If material, such delays could affect the timing of future cash flows and, by extension, our project valuation. In addition, we note that changes to the current tax/royalty regime, and/or environmental regulation, also have the potential to negatively impact our valuation of the Cerro Blanco project.

Capital Structure and Financials

As of its Q2/18 financial statement, Bluestone had a cash/cash-equivalent position of US\$17.5M, a working capital position of US\$15.8M, and zero debt.

As highlighted in Figure 35, our fully financed valuation of Bluestone includes consideration for an interim \$20M in exploration/development financing as well as a US\$100M construction equity financing, both priced at a 10% discount to market (\$1.15/sh). Overall, our applied financing models a 67% share dilution from current levels, with the issuance of an additional 130M shares in 2019.

Figure 35: Bluestone Resources share structure

Type	Exercise Price (\$/sh)	Expiry Date	# Shares
Common Shares (June 30, 2018)			63,840,560
Options	\$1.50	variable	5,930,000
Warrants	\$2.00	May 2019	258,805
	\$2.00	June 2019	1,276,342
	\$0.35	June 2020	596,000
	\$0.35	June 2020	2,313,920
	\$0.35	June 2020	744,242
Fully Diluted Shares			74,959,869
Exp/Dev Financing			17,460,317
Project CAPEX Equity Financing			113,378,685
Adjusted Basic+ITM+Financing			198,333,724
Adjusted Fully Diluted Shares			205,798,871

Source: Company Reports, Canaccord Genuity estimates

Figure 36: Major shareholders

	Ownership
Lundin Family Trusts	36.0%
CD Capital	17.0%
Goldcorp	5.0%
APG Asset Management	4.3%
Ruffer LLP	2.9%
Franklin Advisers	2.7%
AGF Investments	2.1%
Sprott Asset Management	1.1%
Management and Directors	9.0%

Source: FactSet, Company Reports

Appendix A: Management & Directors

John Robins, P.Geo. – Executive Chairman

Mr. Robins is a professional geologist with over 30 years of experience as an independent exploration geologist and entrepreneur. Most recently John was the founder and Chairman of Kaminak Gold which was purchased for \$520 million by Goldcorp Inc. in 2016. A 1984 graduate of the University of British Columbia with a Bachelor of Science degree in geology, Mr. Robins initially worked as a self-employed prospector and geologist in British Columbia and Northern Canada. In 1988, he founded Hunter Exploration Group, one of Canada's most successful private exploration companies. In 2008, Mr. Robins was recognized for his achievements in mining exploration by the Association for Mineral Exploration British Columbia with the H.H. "Spud" Huestis Award. This is recognized as among the highest awards given for mineral exploration. Mr. Robins has also been active in starting several successful public exploration and development companies, culminating in 2005 with his co-founding of the Discovery Group of Companies. Mr. Robins also sits on the boards of several successful publicly traded exploration companies.

Darren Klinck – President, CEO & Director

Mr. Klinck is a graduate of the Haskayne School of Business at the University of Calgary and is a highly regarded mining executive with a broad range of international experience. Darren was most recently Executive Vice President & Head of Corporate Development for OceanaGold Corporation, responsible for overseeing the capital markets as well as the mergers and acquisitions strategy. Over his ten years at OceanaGold, Mr. Klinck's various responsibilities also included oversight of project teams managing exploration, corporate social responsibility (CSR) and community engagement programs, as well as extensive government relations activities.

Peter Hemstead, CPA, CMA – Chief Financial Officer

Mr. Hemstead is a Chartered Professional Accountant with an Honours Economics degree from the University of Western Ontario. Mr. Hemstead has over 20 years of finance experience, with the last 10 years spent in a senior financial executive role at Capstone Mining Corp., leading the finance team through the successful expansion from a development stage mining company to an intermediate producer.

David Cass, P.Geo., M.Sc. – Vice President Exploration

Mr. Cass is a geologist with over 25 years of international experience in mineral exploration and mining for precious and base metals, with most of this time focused in Latin America. David spent 15 years of his career with major international mining company Anglo American plc, where he held positions of increasing responsibility in jurisdictions including South and Central America, Mexico, Canada, Turkey, Iran and Eastern Europe. Mr. Cass' time at Anglo also included four years as Senior Geologist in Peru, and six years as Exploration Manager for North America, where he was responsible for Anglo's exploration programs throughout Canada, Central America, Mexico, mainland USA and Alaska. More recently, Mr. Cass managed junior exploration companies with projects in Peru, Nicaragua, Guatemala, Mexico and Colombia. Mr. Cass holds a Master of Science degree in Mineral Exploration and Mining Geology from the University of Leicester, UK (1990) and a Bachelor of Science degree in Geology from London Metropolitan University. He is a practicing member (P.Geo) of the Association of Professional Engineers and Geoscientists of British Columbia and Fellow of the Society of Economic Geologists.

David Gunning, P.Eng. – Vice President Operations

Mr. Gunning is a graduate of Mining Engineering from the University of British Columbia (1983) and has been a practicing Professional Engineer since 1989. Mr. Gunning has over 35 years of operational experience in underground mining, processing and exploration in Canada, the United States, Mongolia and Mexico. For the last eight years, Mr. Gunning acted as Chief Operating Officer and Director for Starcore International Mines, during which time he was responsible for all aspects of the San Martin gold mine located in central Mexico. During his tenure at Starcore, the company developed many successful strategies to aid the nearby community while improving the environmental footprint of the operation.

Jeff Reinson, M.Sc. – Vice President Project Development

Mr. Reinson is a civil engineer with over 25 years of experience leading major heavy civil infrastructure projects from early conceptual studies through to execution and handover. After spending 10 years honing his technical expertise as a consulting engineer, Jeff spent the last 15 years of his career in senior project and engineering management roles with Goldcorp Inc., AngloGold Ashanti Limited, Newmont Mining Corporation, and Rio Tinto Ltd. leading or supporting large, multi-disciplined project teams throughout Mexico, Colombia, Chile, Peru, and Canada. Most recently Jeff was Project Director for Goldcorp, where he led the safe construction of Penasquito's +\$750 million tailings storage facility expansion, a heap leach facility expansion feasibility study and a large groundwater remediation project. Jeff holds master's and bachelor's degrees in civil engineering from the University of Saskatchewan where he received the Wong-Fredlund Unsaturated Soils Scholarship.

Stephen Williams, P.Eng., MBA – Vice President Corp. Dev. & Investor Relations

Mr. Williams was previously a Director at Canaccord Genuity Corp. in the metals and mining investment banking team. He provided strategic advice to clients on acquisitions, mergers, and equity financings. Stephen is a professional engineer by background and worked for Freeport-McMoRan in an operational and process development capacity. He holds a B.A.Sc. in Metallurgical Engineering from the University of British Columbia and an MBA from the W. P. Carey School of Business, Arizona State University.

Zara Boldt, CPA, CGA – Director

Ms. Boldt is a professional accountant (CPA, CGA) who has held progressively senior financial leadership roles with several public companies in the mineral exploration and development industry. Currently she is the CFO & Corporate Secretary of Lucara. Previously Ms. Boldt served as the CFO & Corporate Secretary of Kaminak Gold, where she was responsible for corporate due diligence and the negotiation, documentation and execution of a Plan of Arrangement for an acquisition transaction valued at C\$520 million. Prior to Kaminak, Ms. Boldt was the Vice-President, Finance & CFO for Stornoway Diamond Corporation where she was a member of the senior management team responsible for arranging financing in excess of \$900 million for the development of the Renard Diamond Mine in Quebec. Ms. Boldt has most recently served as the CFO & Corporate Secretary for Strongbow Exploration Inc. Presently, Ms. Boldt is a Director and Chair of the Audit Committee for Gold Standard Ventures Corp.

Leo Hathaway, P. Geo – Director

Mr. Hathaway is a geologist with extensive experience in the mining sector. He currently serves as Senior Vice President of Lumina Gold Corp and was Chief Geological Officer for Anfield Gold and Lumina Copper Corp (2008 - 2014). Prior to this Mr. Hathaway was VP Exploration for Northern Peru Copper (2005 to 2008), for Regalito Copper (2005 to 2006), and for Lumina Resources (2004 to 2005). Prior to 2004 he worked for Inmet Mining in Europe, Central and South America and also Australia. Mr. Hathaway holds a B.Sc. (Hons) degree in Applied Geology from the

University of Plymouth, a M.Sc. in Mineral Exploration from the University of London, and obtained a P.Geo designation from the Association of Professional Geoscientists of Ontario in 2004.

William Lamb – Director

Mr. Lamb has over 23 years of experience in mining and operations in Canada and several Southern African countries. His background includes operational and project management in the precious metals, coal, chrome, and diamond sectors. Mr. Lamb spent 13 years with De Beers working across their operations in Southern Africa and Canada focusing on heavy mineral concentration, project development, and operational readiness. He joined Lucara Diamond Corp. in 2008 and was instrumental in the acquisition of the AK6 asset, now the Karowe Mine, which has been brought into production as one of the world's most significant producers of large, high quality diamonds.

Paul McRae – Director

Mr. McRae has a distinguished global reputation in project and construction management in the mining industry for both surface and underground projects of all scales and complexities. He was most recently responsible for the successful development of Lundin Mining Corporation's Eagle Mine in Northern Michigan. His track record includes on time/on budget project management of major underground investments for INCO including the McCreedy East, Garson, and Birch Tree projects, serving as Project Manager on the highly successful De Beers Victor Project in Northern Canada, and leadership of numerous other projects from conceptual through construction phases in Australia, Canada, Spain, Portugal, and South America over a career spanning more than 40 years. Mr. McRae is currently Senior Vice President Projects for Lundin Mining and a member of the Board of Directors for Lundin Gold Inc. and Filo Mining Corp.

Jim Paterson – Director

Jim is currently the CEO of Kivalliq Energy Corporation and was a driving force behind more than \$60 million in equity financings, one of the largest uranium exploration programs on the globe, and a 200% increase in mineral resources at the Lac 50 deposit. Jim has 20 years of corporate finance, acquisition, joint-venture, spin-out, RTO, and IPO experience. Mr. Paterson founded, was President & CEO, and Director of Corsa Capital Ltd., a company that acquired and capitalized coal mining assets in the United States. In addition to Northern Empire and Kivalliq Energy Corporation, Jim serves as a director Bluestone Resources Inc.

Keith Peck, CBV – Director

Mr. Peck is Chairman and CEO of Lincoln Peck Financial Inc., a financial advisory firm focused on the resource sector. He has over 30 years of investment banking experience including Vice-President and Director of RBC Dominion Securities Inc., Haywood Securities Inc. and Vice-Chairman of Yorkton Securities Inc. Mr. Peck has a broad business background that includes billions of dollars of financings in public and private markets, mergers and acquisitions, corporate restructurings, business valuations and expert financial testimony. Mr. Peck was a founder of Centenario Copper Corporation, a Chilean copper company which was acquired by Quadra Mining Ltd. in 2009. He has a BA in Economics from Princeton University and is a Chartered Business Valuator (CBV).

Source: Company Website

Appendix B: Technical Advisors

Alf Hills (Chair)

Mr. Hills is registered as a Professional Engineer in the Province of British Columbia and holds a degree in Mining and Mineral Process Engineering with over 40 years of international mine evaluation, development, start-up operations, general management and board experience. Mr. Hills spent 26 years of his career with Placer Dome Inc, where he held positions including Vice President Evaluations, Mine General Manager at Placer's Australian Kidston Gold Mine. Mr. Hills also participated in developing the CIM Best Practice guidelines for Mineral Resource and Mineral Reserve Estimation and was a corporate member of the SME Resources and Reserve Committee.

Scott Donald

Mr. Donald is a Principal and Senior Hydrogeologist with Golder Associates and a specialist in numerical, analytical and statistical analysis of hydrogeological processes. He has over 25 years of experience applying numerical and analytical techniques to the solution of groundwater flow over a wide range of projects primarily applied to the mining industry related to the development of new mines or in the mine closure process.

Allan Moss

Mr. Moss has over 40 years of experience in mining and geo-technical engineering. Over the last 20 years Allan has been heavily involved in large underground mines, from design through implementation to operations as well as several smaller underground operations. Mr. Moss is currently President of Sonal Mining Technology providing advisory services to underground bulk mining operations and has served on a number of technical review boards for many of industry's senior firms.

Roger Nendick

Mr. Nendick has more than 40 years of operating and engineering experience in the mining industry. Most recently, he was Project Director for the Udokan Copper Project in Siberia, Russia. Prior to that he was Project Director for the Ambatovy Project in Madagascar for Sherritt International. Mr. Nendick currently acts as a consultant to Lundin Mining, Filo Mining and NGEx. He has experience as a Project director for major Feasibility Studies and in Front End Project Development. As Vice-President, Technology and Operations for Fluor Mining and Minerals, he was involved as sponsor or technology specialist in a number of recent engineering and construction projects including the Glamis Marlin mine in Guatemala.

Robert Sim

Mr. Sim is a senior resource consultant with more than 30 years of experience in mineral exploration, mine operations management, project evaluations, resource audits, geostatistical studies, feasibility studies, QA/QC programs, conditional simulation studies, and mineral resource evaluations and modelling. Considerable experience across surface and underground metal and non-metal deposits in Canada, the United States, Central and South America, Europe, Asia, Africa and Australia.

Ward Wilson

Dr. Ward Wilson is a Professor of Geotechnical and Geo-environmental Engineering at the University of Alberta and brings more than 30 years of industrial experience to his practice in advance mine waste management. He has extensive experience as a consulting engineer, involved in mine waste management systems at numerous mine sites worldwide. He has also served as a specialist review consultant for many larger international mining projects.

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Investment Recommendation

Date and time of first dissemination: October 18, 2018, 03:12 ET

Date and time of production: October 18, 2018, 03:12 ET

Target Price / Valuation Methodology:

Bluestone Resources Inc. - BSR

Our target price is predicated on a US\$292M NPV8% valuation of Bluestone's Cerro Blanco project on a fully financed basis (US\$200M CAPEX, 50/50 debt to equity) plus other non-operating and balance sheet items.

Risks to achieving Target Price / Valuation:

Bluestone Resources Inc. - BSR

In addition to the usual risks to target prices associated with commodity pricing, exchange rates, and mineral exploration/development, we highlight the following:

Financing Risk – As a pre-cash flow development company, Bluestone is reliant on the capital markets to remain a going concern. At present, the company has a cash position of ~US\$14M and is well positioned to continue to advance its Cerro Blanco project in the near term. However, we note that there is no guarantee that Bluestone will be able to continue to access capital markets, as a result of possible changes in market sentiment/pricing and/or concerns involving project feasibility.

Shareholder Dilution – Our valuation of Bluestone includes the associated share dilution of US\$200M initial project CAPEX financing (50/50 debt-to-equity), as well as an interim \$20M exploration/pre-development equity financing. In total, these two financings mark a projected 67% share dilution from current levels. We note the potential for even higher dilution should equity be financed at lower than projected levels, and/or if initial CAPEX is financed at >50% equity.

Resource Conversion – Our valuation of Bluestone incorporates 70% of the Cerro Blanco Inferred category resource into our mine model. We note that there is no guarantee that future drilling will be successful in converting such resources to a higher level of confidence suitable for mine planning. As such, a failure to do so could negatively impact our valuation.

Development Risk – In our valuation of Bluestone, we utilized several assumptions in our estimation of both the capital and operating costs for the Cerro Blanco project. The forecast economics for this project have the potential to incur higher development costs/overruns, procurement delays, permitting issues, and other associated factors that could adversely impact our valuation of Bluestone.

Operational Risk – Our forecasts are based upon technical data, guidance from the company and our own knowledge and experience with regard to the operation of individual mining projects. We note the potential for operational and financial performance to change rapidly due to weather-related issues, unexpected changes in minerology and in general unforeseen operational difficulties.

Regulatory Risk – While the Cerro Blanco project is fully permitted, we note the possibility for additional project consultation and/or technical studies to be required. If material, such delays could affect the timing of future cash flows and, by extension, our project valuation. In addition, we note that changes to the current tax/royalty regime, and/or environmental regulation, also have the potential to negatively impact our valuation of the Cerro Blanco project.

Distribution of Ratings:**Global Stock Ratings (as of 10/18/18)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	553	63.06%	46.65%
Hold	204	23.26%	29.41%
Sell	14	1.60%	21.43%
Speculative Buy	106	12.09%	65.09%
	877*	100.0%	

*Total includes stocks that are Under Review

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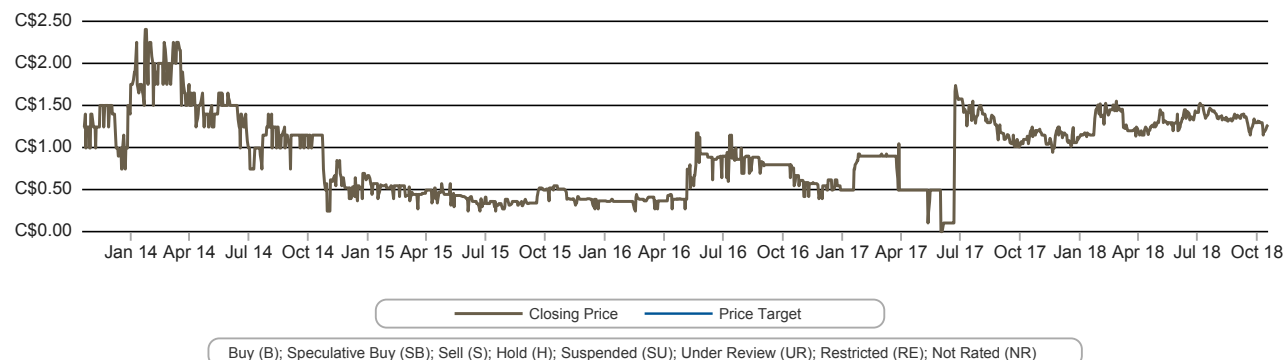
12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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