

Bluestone Resources Inc.

(BSR-V)

SECTOR: Mining

STOCK PRICE \$1.47
RATING **BUY**
TARGET PRICE \$2.75
RISK Very High

DRILL RESULTS FROM INFILL DRILL PROGRAM

More Infill Drill Results Announced Plus a New Vein

OUR TAKE: Today's drill results continue to highlight the potential to increase the M&I resource by converting Inferred resources, as well as upside potential to expand resources.

KEY HIGHLIGHTS

- ◆ **Infill Drilling Continues to Highlight Continuity of Mineralization** – This morning, Bluestone announced drill results from two drill holes from their ongoing resource conversion drilling program that is currently underway to upgrade Inferred resources into the Measured and Indicated categories at their 100% owned Cerro Blanco gold project located in Guatemala. Measured and Indicated resources currently total 1.2 million ounces of gold at an average grade of 10.1 g/t gold and the Inferred resource totals 357,319 ounces of gold at an average grade of 8.1 g/t, mostly in vein extensions from current M & I resources. We expect a large proportion of the current 357,000-ounce Inferred resource can be converted with further drilling. Both holes were in close proximity to each other and will help to upgrade Inferred to Indicated resources.
- ◆ Highlights from today's results include:
 - 27.9 g/t over 3.3 meters in Drill hole UGCB18-109
 - 10.0 g/t over 2.0 meters in Drill hole UGCB18-110
- ◆ **Mineralization Remains Open** – Bluestone continues to intersect new mineralized veins in their drilling and they now have enough pierce points to call one of these structures a new vein. This new vein (now named vein 18) was intercepted in both reported holes (8.5 g/t gold over 1.0 metre and 19.9 g/t gold over 1.0m) that correlates well with previous drill intercepts and is outside of the current resource. Drilling continues with 2 drill rigs on site.
- ◆ **Feasibility Study Results Recently Announced** – On January 29, 2019, Bluestone announced the results of a Positive Feasibility Study for Cerro Blanco. The study highlights an underground operation with an 8-year mine life with annual average production of 113,000 ounces at an average cash cost of US\$424/oz and AISC of US\$579/oz. Initial capital is estimated at US\$196 million and LOM sustaining capex is estimated at US\$140 million. At a gold price of US\$1,250/oz the project returns an NPV_{5%} of US\$241 million and an IRR of 34%. Inferred resources of 357,000 ounces were not included in the mine plan, and we expect this project will at a minimum be a 12-15-year mine life from resource conversion and incremental resource additions with more drilling. We model average production of 110,000 oz with AISC of US\$625/oz over a 10.5-year mine life.
- ◆ **Resource Estimate and Updated Feasibility Later this Year** – Bluestone plans on releasing an updated mineral resource estimate in Q3/19, followed by an updated Feasibility Study. The next steps will include developing a financing package over the next 6-9 months (debt and equity expected) prior to construction start.

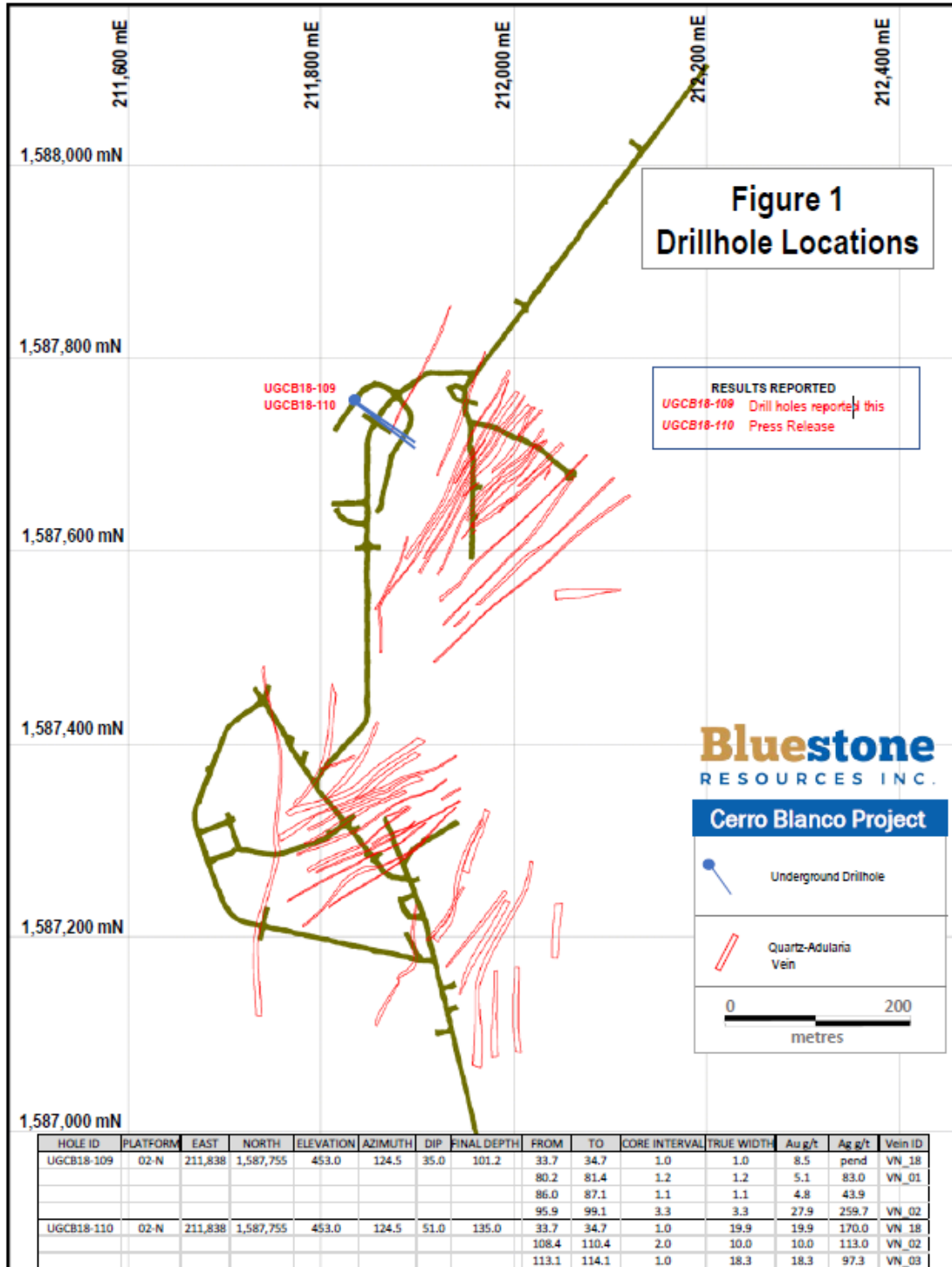
RECOMMENDED ACTION

We recommend accumulating shares at current levels

- ◆ **Reiterate our Buy Rating and \$2.75 Target.** Cerro Blanco is a high-grade underground gold project with considerable infrastructure already in place. The project is fully-permitted and could be in production within two years. The project is very robust and is a strong acquisition candidate for mid-tier gold companies looking to add a shovel-ready, permitted project to their project portfolio.

KEY STATISTICS AND METRICS		HAYWOOD ESTIMATES (USD)			VALUATION
		2017A	2018E	2019E	
52-Week High/Low	\$1.60/\$1.05				<p>Our \$2.75 target price is derived from a 0.9x multiple to our net asset value (NAV), at a gold price of US\$1,400/oz.</p> <p>Bluestone trades at US\$41/oz of gold (on an EV/oz basis) and 0.53x NAV, versus global peers at US\$46/oz and 0.48x NAV. At US\$1,200/oz gold our target price would decline to \$1.90/share.</p>
YTD Performance	+23%	Revenue (\$M)	0	0	
Dividend Yield	n/a	Op.CF(\$M)	(8.9)	(18.6)	
Shares O/S	64 MM (basic)	Capex (\$)	0	0	
Market Capitalization	\$94M	FCF(\$M)	(7.8)	(18.6)	
Cash	\$9M				
Long-Term Debt	n/a				
Enterprise Value	\$85M				
Daily Volume (3 mos.)	4,440				
Currency	C\$ unless notes				

Plan View of Drill Hole Locations



Source: Bluestone Resources



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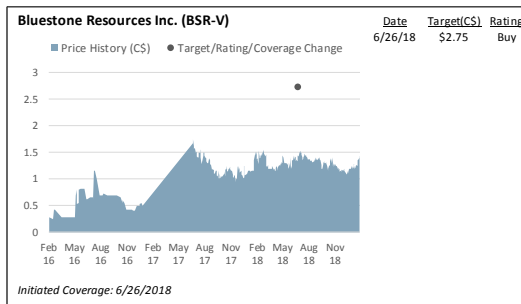
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- ◆ n/a

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	%	#	IB Clients (TTM)
Buy	75.3%	73	95.8%
Hold	10.3%	10	4.2%
Sell	2.1%	2	0.0%
Tender	2.1%	2	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	10.3%	10	0.0%

Price Chart, Rating and Target Price History (as of February 7, 2019)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review
 Source: Capital IQ and Haywood Securities

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