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Bluestone's Cerro Blanco takes shape in Guatemala

Bluestone Resources Cerro Blanco gold project, 160 km southeast of Guatemala City near the border with El Salvador. Credit: Bluestone Resources.

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When John Robins, founder and chairman of Kaminak Gold, sold the junior to **Goldcorp** (TSX: GG; NYSE: GG) for $360 million in 2016, the exploration geologist and entrepreneur let it be known that if at some point the gold major was interested in selling any of its assets, it should let him know.

So when he learned that Goldcorp was planning to divest two projects in southeastern Guatemala — a gold project called Cerro Blanco and an adjacent geothermal energy project — Robins hopped on a flight to Guatemala City to do his due diligence.

What he found impressed him enough to make an offer on behalf of **Bluestone Resources** (TSXV: BSR) where he holds the post of executive chairman.

Goldcorp and Cerro Blanco's other previous owner, Glamis Gold, had spent US$170 million developing the fully permitted project. (Goldcorp acquired Glamis in 2006.)

Their work included two underground declines, 3 km of underground development, two Alimak vent raises, dewatering infrastructure and a water-treatment facility. The previous operators had also drilled 155,500 metres in 522 holes.

A resource estimate confirmed that the deposit contained 1.24 million oz. gold and 4.47 million oz. silver (5.7 million indicated tonnes grading 10.2 grams gold per tonne and 36.5 grams silver per tonne).

Cerro Blanco, 160 km southeast of Guatemala City near the border with El Salvador, is also just 7 km from the Pan American Highway, and electricity can be accessed by installing a 69 kV overhead power line from an existing substation on the property.

After his due diligence trip in the fourth quarter of 2016, Robins and Goldcorp reached a deal in January 2017. Under the agreement, Bluestone acquired the project for US$18 million in cash, Bluestone shares and a 1% net smelter return royalty. (Bluestone will also pay Goldcorp another US$15 million after the mine is in production for six months, which should be offset by a VAT credit.)

Under the deal Bluestone also bought mining-related equipment from Goldcorp's Marlin mine — Guatemala's first large gold mine — which had recently closed after operating since 2005.

For US$2 million, Bluestone picked up 12-megawatt generator sets, scoop trams, jumbos, bolters and underground drills.

As part of the transaction, Bluestone also completed a preliminary economic assessment, which showed Cerro Blanco could produce 952,000 oz. gold and 3.14 million oz. silver at all-in sustaining cash costs of US$490 per oz. over a nine-year mine life.

The study estimated that at US$1,250 per oz. gold, initial capex of US$171 million could be paid back in just under two years. The PEA calculated a US$317-million after-tax net present value at a 5% discount rate and a 43.8% after-tax internal rate of return.

Bluestone raised $80 million at $1.50 per share and closed the financing in May 2017. The Lundin family acquired a 51% stake in the initial financing, later increasing its position in the public market to 56%.

"What the Lundin family sees here is that mother nature isn't making any more of these sorts of deposits," says Darren Klinck, Bluestone's president and CEO.

Bluestone's other major shareholders include CD Capital (17%); management (9%); Goldcorp (5%); Franklin Gold and Precious Metals Fund (2.7%); and AGF Investments (2.1%).

Mine financing — likely a combination of debt and equity — could start in 2019, and if all goes well, Cerro Blanco could be in production before the end of 2020.

"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," Kerry Smith, a mining analyst at Haywood Securities, noted in a research report on June 26.

Bluestone has drilled 10,000 metres and will update the resource before the end of July. It expects to finish a feasibility study in the fourth quarter.

The resource is confined to a 400-metre by 800-metre area and is open at depth.

The gold and silver mineralization at Cerro Blanco is associated with epithermal quartz-adularia veins and vein swarms that sit below a silicified cap that forms a low-lying hill.

Klinck notes that having access to the deposit from underground for drilling and sampling has been a game-changer, helping the company better understand the subtleties of the hot springs-related, low-sulphidation deposit.

Resource definition drilling so far has intersected broad zones of high-grade mineralization. Recent assay results include a 21.4-metre intercept grading 9.6 grams gold and 34.9 grams silver from 37 metres downhole; 11.5 grams gold and 48.6 grams silver over 12.9 metres from 40 metres downhole; 16.5 grams gold and 18.4 grams silver over 7.9 metres from 254 metres; and 7 grams gold and 65.2 grams silver over 17.2 metres from 111 metres downhole.

In addition, underground sample results reported in January were taken from vein exposures within the underground development comprising the North and South ramps. The average grade of the 205 samples is 10.8 grams gold and 32.2 grams silver, ranging from trace to 276.9 grams gold and up to 752 grams silver. Of the samples, 42% (86) average over 5 grams gold and 27% (56) average greater than 10 grams gold.

Bluestone says there is exploration potential on the larger land package, too, and has prospective targets within a kilometre of the main deposit.

"When we arrived last year there had not been an exploration program for more than four years," Klinck says in an interview, explaining that Goldcorp had put the project on care and maintenance and moved some of Cerro Blanco's geologists over to its Marlin mine to increase the mine life there.

Their attempt was unsuccessful, however, and Marlin entered its closure phase last year. Goldcorp's failure to add ounces at Marlin brought the opportunity to Bluestone.

A worker and a haul truck at Bluestone Resources' Cerro Blanco gold project, in Guatemala. Credit: Bluestone Resources.

"If Marlin was still operating today we wouldn't be having this discussion," Klinck says. "Goldcorp and Glamis before them felt that there was a great opportunity there to partner Cerro Blanco with Marlin."

In addition to the 10,000-metre, resource-definition drill program Bluestone has completed this year, the company has just started a small, 4,000-metre exploration drill program to step out within 500 metres to 1 km of the deposit, and test initial targets.

"The exploration potential is quite significant," Klinck says. "It's a low-sulphidation system and they often tend to require a fair bit of drilling, however, they can be highly prospective and highly profitable," he says. "There are a lot of examples out there today where low-sulphidation, epithermal mines started with a mine life of eight or nine years, and 50 years later they are still producing gold."

In addition to Cerro Blanco, Bluestone acquired Goldcorp's Mita geothermal project, an advanced-stage, renewable energy project licenced to produce up to 50 megawatts of power.

Goldcorp had spent US$60 million on the project before selling it to Bluestone. Klinck says the project could help Guatemala wean off coal and bunker fuel oil, which together make up 40% of the country's power-generation mix.
Down the road, Mita offers Bluestone an opportunity to produce some or all of the power for Cerro Blanco, and the company has already received interest in the project.

"There was interest to partner with us on the geothermal project because it has a US$60-million headstart," Klinck says. "In mid-2017, both private and public companies out of Latin America and North America reached out to discuss partnership opportunities — it was a bit of a surprise. The phone started ringing but we didn't know what we had."

Bluestone brought in some experts from California to run rigorous flow-test programs, and the company expects to discuss the data with the board over the next six months.

Operating in Guatemala can be challenging, however.

Last year the Fraser Institute ranked the country dead last out of 91 jurisdictions in its Investment Attractiveness Index and 88th in the Policy Perception Index, surpassed only by Zimbabwe, Chubut (Argentina) and Venezuela.
High poverty rates, crime and the drug trade continue to dog the largely agrarian nation, which is still trying to right itself after a 36-year civil war drew to an end in 1996.

Indigenous groups opposed to **Tahoe Resources**' (TSX: THO; NYSE: TAHO) Escobal silver mine have kept the underground mining operation tied up in legal knots for a year, while protestors continue to block the highway that runs from the mine and nearby town of San Rafael las Flores to Guatemala City.

Klinck acknowledges the perception problem and compares it with that of the Philippines, where he worked for **OceanaGold** (TSX: OGC; US-OTC: OCANF) as executive vice-president and head of corporate development. (His responsibilities included overseeing project teams, managing exploration, corporate social responsibility, and community engagement programs, as well as extensive government-relation activities.)

"Ten or 11 years ago I heard very similar things about the Philippines," he says. "There have been ups and downs and new governments, etc., but for both Masbate and Didipio, they've never really missed a beat."

On his first day on the job in Guatemala, he says, he met with the mining minister, and "it was clear that they want to attract foreign investment."

"The Guatemalan government is a right-of-centre, pro-business government," he says, adding that there is a "strong U.S. presence" in the country.

"The U.S. Embassy is very influential there," he points out, adding that Guatemala has had "one of the most stable currencies in Latin America over the last 10 years."

In addition, Goldcorp put emphasis on building strong relations with the local community and on focusing on the environment, completing a significant amount of environmental baseline monitoring work, he says.

The project will not involve any relocation or land resettlement and the local economy is primarily ranching and agricultural. The nearest town is Asuncion Mita, where the 15,000-strong population is ethnically mixed).

Smith of Haywood Securities points out that Cerro Blanco's location in southeastern Guatemala sets it apart from Tahoe's troubled Escobal mine, 64 km southeast of Guatemala City, which lies "in the middle of an agricultural region, where numerous families live off the land."

The town of San Rafael surrounds the mine, the analyst notes, and "Escobal's issues relate to the mines' perceived impact on water and water usage, mining's impact on the indigenous peoples and economic benefits to the local people."

By contrast, Smith notes, "there are no indigenous groups living around the [Cerro Blanco] project, and the landowners are typically ranchers and farmers of Spanish descent.

"There are no resettlement requirements associated with the development of Cerro Blanco and Cerro Blanco is permitted for construction and production — a factor which mitigates a large portion of the political risk for the project."

Smith recently initiated coverage of the company with a "buy" rating and a $2.75-per-share target price.

At press time, Bluestone shares were trading at $1.52 within a 52-week range of 95¢ to $1.60. The company has 64 million shares for a $97-million market capitalization.

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COMMODITY: Gold Silver
REGION: Mexico And Central America
COMPANY: Bluestone Resources Inc Goldcorp OceanaGold Corp. Tahoe Resources

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