

Canarc to acquire fully permitted project in Mexico

BY TRISH SAYWELL

Catalin Chiloflisch joined **Canarc Resource** (TSX: CCM; US-OTC: CRCUF) as its CEO in January 2014, partly because he felt confident the junior could mirror the success in Mexico that its founder and chairman, Bradford Cooke, had achieved at another company he created called **Endeavour Silver** (TSX: EDR; NYSE: EXK).

Chiloflisch describes how Cooke built up Endeavour into a strong mid-tier silver-gold mining company through strategic acquisitions. He targeted distressed mines in historic districts that held the potential for operational turnarounds, and discoveries that could be fast-tracked to production to drive organic growth. Endeavour acquired its Guanacevi mine in Durango state in May 2004. After this acquisition came Cooke's second mine in Mexico — Bolanitos in Guanajuato state — in May 2007, and a third mine — El Cubo, also in Guanajuato state — in July 2012.

“Brad has built three of his mines by looking for assets that have potential and can be turned around and grown,” Chiloflisch says in a telephone interview from Mexico. “Their first asset, Guanacevi, just had a mill. When they built that asset ten years ago there were no resources and they were mining within six months of closing the deal, and they are still mining there today. They increased the resources there two or three times.”

Canarc Resource has announced that it plans to purchase 100% of Oro Silver Resources, which owns the fully permitted El Compas gold-sil-



CANARC RESOURCES

Canarc Resources project manager Louis Garcia (left) and CEO Catalin Chiloflisch at the El Compas gold-silver project in Zacatecas, Mexico.

ver property in Mexico's Zacatecas state. Oro Silver Resources is wholly owned by **Marlin Gold Mining** (TSXV: MLN; US-OTC: MLNGF).

Under the proposed transaction on July 6, Canarc would issue Marlin 19 million Canarc shares in exchange for its 100%-owned stake in the company, making Marlin Canarc's largest shareholder, with a 10% stake. The agreement grants Canarc until Sept. 30 to complete its due diligence on the 29 sq. km property.

If the deal goes ahead, Marlin will get one seat on Canarc's board and keep the Altiplano royalty buyback option, where it can repurchase a 1.5% net smelter return royalty (NSR) on certain mining claims for US\$1.5 million. It will also receive a 1.5% NSR on all non-Altiplano claims that are not

associated with the royalty.

Akiba Leisman, Marlin's executive chairman and interim CEO, said that by partnering with Canarc, Marlin could leverage the company's expertise in advancing projects like El Compas in Mexico, and that his management team looked forward to receiving valuable royalty streams. Leisman could not be reached for comment before press time.

“Immediately after Wexford Capital became the controlling shareholder of Marlin in August 2012, it became clear that El Compas was going to be a lower priority for the company,” Leisman said in a statement. “Of the \$10.6 million in capital spent on the project by Marlin's predecessors, less than \$500,000 was spent by Marlin since this time. We believe that El Compas

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could be a significant precious metal producer ... but our focus on the company's La Trinidad mine and the Commonwealth project will not allow us to give this project the attention it deserves."

Chiloflischki notes that acquiring a fully permitted project in one of the world's most prolific gold-silver districts would help Canarc become a producing gold-silver company. He says that when he joined the company, Canarc had a dual focus. One was to advance its New Polaris gold project in northern B.C., and the other to leverage management's experience in operating gold and silver mines in Mexico.

"We believe this project is a good fit for us," he says. "It comes with a big land package and has potential along the trend to make it into a significant mine over the coming years." Chiloflischki points out that Zacatecas is a promising jurisdiction and home to major mines, and that Marlin Gold had no difficulty permitting the proposed cyanide plant at El Compas. "This is an underground mine with a cyanide circuit, which is a big thing in Mexico. In some states it's hard, if not impossible, to permit a cyanide plant ... Marlin got the permit recently and as far as we know, without too much hassle."

The mining executive says that if a production decision is made after the transaction closes at the end of September, it would take 12-18 months to build an underground mine and processing facilities, with construction underway as early as January 2016.

"It's not a big operation, and the benefit we have is that through our contacts in Mexico we have already identified a number of cyanide plants that could be available for purchase," he says. First, however, Canarc will complete two to three months of engineer-

ing work and update the project's 2014 preliminary economic assessment. Based on the previous work at El Compas, Canarc estimates it would cost US\$15 million to build a 400-tonne-per-day operation.

production records are unavailable, but Marlin has confirmed that high-grade gold and silver mineralization exists within at least two of the vein structures — the El Compas vein and the El Orito vein.

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In the meantime, Canarc is looking for more projects in Mexico to add to its portfolio.

"We want to turn Canarc into a producing company, and our New Polaris project in B.C. is still about three and a half years away from production, and this project is 18 months away, so we're looking for more," he says. "One of the reasons why we're excited about this acquisition is because we can leverage into our contacts and be successful here, and avoid the pitfalls that others might make when they're first starting out in Mexico."

Chiloflischki also notes that it's a good time to be on the acquisition trail, because the junior gold mining sector is undervalued and ripe for consolidation. "Mining is going through difficult times, and there are still some good projects around that we feel we can purchase on favourable terms, and which present significant potential for a turnaround."

The El Compas project is host to a number of gold-bearing veins identified at surface. These veins were mined via underground mining by a private Mexican company. Historic

El Compas has an indicated resource of 524,000 tonnes grading 4.38 grams gold per tonne and 65.53 grams silver per tonne. Inferred resources measure 419,100 tonnes averaging 3.98 grams gold and 47.57 grams silver. The resource estimate was based on a cut-off grade of 2 grams gold per tonne and 86 drill holes completed between 2005 and 2010.

"The resource of 150,000 gold-equivalent ounces allows us to contemplate production of 30,000 oz. a year — giving us a five-year mine life — but we're confident that with additional drilling this resource could increase significantly," Chiloflischki says.

Nearby mines in the region include **Capstone Mining's** (TSX: CS; US-OTC: CSFFF) Cozamin copper-gold mine, 10 km north of El Compas; Fresnillo's Fresnillo silver mine, 55 km northwest; and Penoles' Francisco Madero zinc-gold-silver mine, 17 km northwest.

At press time Canarc's shares traded at 5.5¢ per share within a 52-week price range of 2.5¢ to 7.5¢. Marlin's shares traded at 48¢ within a 52-week price range of 38¢ to \$1.50.