



Mercenary Alert: The New Kid on the Block in Brazil

A Special Alert Musing from Mickey the Mercenary Geologist

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As regular readers are aware, I use a standard formula to evaluate junior resource companies for speculation. My formula is simple and consists of four parts: Share structure, people, projects, and undervalue.

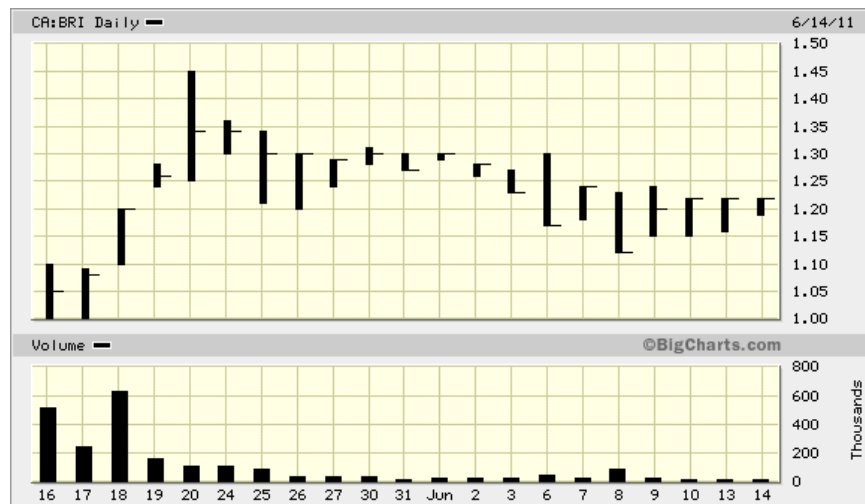
I own a newly-listed company that perhaps deserves your attention. **[Brazil Resources Inc \(BRI.V\)](#)** went public about a month ago and the issue has been well-received by the marketplace.

Please note that I have been involved with the company and its principals for several months and participated in two financings prior to the IPO. Therefore, my cost basis is less than its current trading range. Although I have the proverbial multi-bagger in free-trading paper, I'm not selling at this juncture and these are the reasons why:

- The founders of the company are the same team that took **[Uranium Energy Corp \(UEC.NYSE\)](#)** from a startup explorer to a new USA uranium producer in less than five years. I am a committed investor in UEC and have spoken about the company frequently in recent media interviews and conference presentations. I have had a working relationship with Amir Adnani, CEO of UEC and Chairman of Brazil Resources, for nearly a year.
- Brazil Resources has very strong management and technical teams and is currently adding to that mix with Brazilian professionals having strong financial and technical acumen. The company has a strategic alliance with Brazilinvest, a private merchant bank in the country. Its founder and Chairman Mario Garnero is a director of BRI.
- The company is tightly held with 35.0 million shares outstanding; 10.3 million of those are escrowed and due for release in tranches over the next 11 months. There are no warrants, few options, a large insider position of 34%, and strong institutional support at 23%. The company has \$8.0 million in working capital.
- Some of the usual suspects in our business, including financiers, analysts, and newsletter writers (including yours truly), are early shareholders in the company.

- It has a flagship project, Montes Auroeos, in northeastern Brazil with a small historic gold resource that is currently being evaluated by shallow auger drilling in saprolite. That will be followed by a 5000 meter diamond drill program in August. The chances for upgrade of the historic resource into a larger 43-101 compliant resource in the near term are strong.
- The company's goal is to become a significant player in the Brazil gold arena in the near-term and eventually build a mid-tier gold miner in the country.

With an oversubscribed initial public offering at 65 cents, Brazil Resources Inc began trading on May 16. The issue was well-received by investors and it traded from \$1.00 to \$1.10 over the first two days. After a quick run-up to \$1.45, BRI has settled into a trading pattern around \$1.20 on light volume over the past two weeks:



Since the fall of 2010, I have mentioned several times at panel discussions and workshops my fondness for Brazil as an underexplored gold destination. As subscribers are aware, I previously covered another Brazilian explorer, Amarillo Gold Corp ([Mercenary Musing, February 14, 2011](#)) with good success. It went from 65 cents to a high of \$1.90 during its one year tenure as a sponsor of my website and currently trades at about \$1.30.

Brazil is endowed with the requisite geology and a phenomenal gold budget for major discoveries. However, it has lagged behind other countries, particularly in Latin America and West Africa, during the exploration and discovery boom of the 2000s. There are a few reasons that come to mind:

- Difficulty in exploring in the Amazon Basin with little outcrop and significant infrastructure challenges.
- Lack of a strong junior presence with about 15 public companies listed on the Toronto, London, and Australian junior exchanges that have significant exploration, development, or production projects in Brazil.
- Lack of a giant discovery by a junior or mid-tier company that attracts a major miner take-out.
- A cumbersome Brazilian bureaucracy and long-lead time to establish a corporate entity in the country.

In my opinion, the relative lack of competition in the public company arena in Brazil represents an opportunity that BRI is positioned to exploit.

The company meets my three key criteria for investment. The only question remaining is its valuation with respect to its peers. And that, my friends, is an unanswerable question at this early juncture. Until the company completes its current auger and diamond drill programs, posts assays, and returns a 43-101 resource estimate, we do not have a compelling way to compare it to the few peers among Brazilian gold explorers.

With its strong access to capital markets and a financing in the planning stages, BRI's share structure and working capital will change considerably in the short term. By the time I get around to a field visit to Montes Aureos in the early fall, it is likely to be a very different company than its present juvenile identity. Simply put, I expect this new kid on the block to grow up fast.

Brazil Resources Inc has on-going drilling at its flagship project, personnel additions to the Board of Directors and in-country technical teams, a planned financing in the next quarter, and an aggressive business plan to build a mid-tier gold miner. These catalysts lead me to opine that Brazil Resources has a strong chance to double in the next 12 months or less.

But as you are aware, I have skin in the game at a lower price and the company is a sponsor of my website. That makes my views biased and you must do your own research to determine if the company meets your specific speculative criteria.

I encourage you to check out Brazil Resources Inc and see what *you* think.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. "Mickey" Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has over 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 23 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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Disclaimer: I am a shareholder of Brazil Resources Inc and it is a sponsor of my website. I am not a certified financial analyst, broker, or professional qualified to offer investment advice. Nothing in a report, commentary, this website, interview, and other content constitutes or can be construed as investment advice or an offer or solicitation to buy or sell stock. Information is obtained from research of public documents and content available on the company's website, regulatory filings, various stock exchange websites, and stock information services, through discussions with company representatives, agents, other professionals and investors, and field visits. While the information is believed to be accurate and reliable, it is not guaranteed or implied to be so. The information may not be complete or correct; it is provided in good faith but without any legal responsibility or obligation to provide future updates. I accept no responsibility, or assume any liability, whatsoever, for any direct, indirect or consequential loss arising from the use of the information. The information contained in a report, commentary, this website, interview, and other content is subject to change without notice, may become outdated, and will not be updated. A report, commentary, this website, interview, and other content reflect my personal opinions and views and nothing more. All content of this website is subject to international copyright protection and no part or portion of this website, report, commentary, interview, and other content may be altered, reproduced, copied, emailed, faxed, or distributed in any form without the express written consent of Michael S. (Mickey) Fulp, Mercenary Geologist.com LLC.

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