



Mercenary Alert

Get a Good Gold Junior with a Hot Spin-Out

For Subscribers Only: A Special Alert Musing from Mickey the Mercenary Geologist

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The Toronto Venture Exchange is in a world of hurt, having lost over 70% since its high in early March of 2011. The net result of the bear market, now approaching four years in duration, is that most of the listed junior resource companies have meager or negative working capital, highly diluted share structures, failed projects, and managers struggling to pay themselves in order to make North Shore or West Vancouver mortgage payments. These issuers are no longer viable speculations and have little more than a hope and a prayer for recovery.

Unfortunately for speculators, the TSXV has been extremely reluctant to rid itself of this failed majority and keeps easing its myriad of rules and regulations in order to postpone delisting of nonviable companies. Since the bull market ended in March of 2011, only about 15% of issuers have been expunged from the Exchange. At least half of those remaining need to go the same route.

That said, there remains a minority of well-run gold companies on the junior board. They have experienced management, a tightly-held share structure, and good projects in various stages of exploration and development. Plus they have substantial working capital. However, like their bad brethren, market capitalizations of good companies have also suffered to varying degrees.

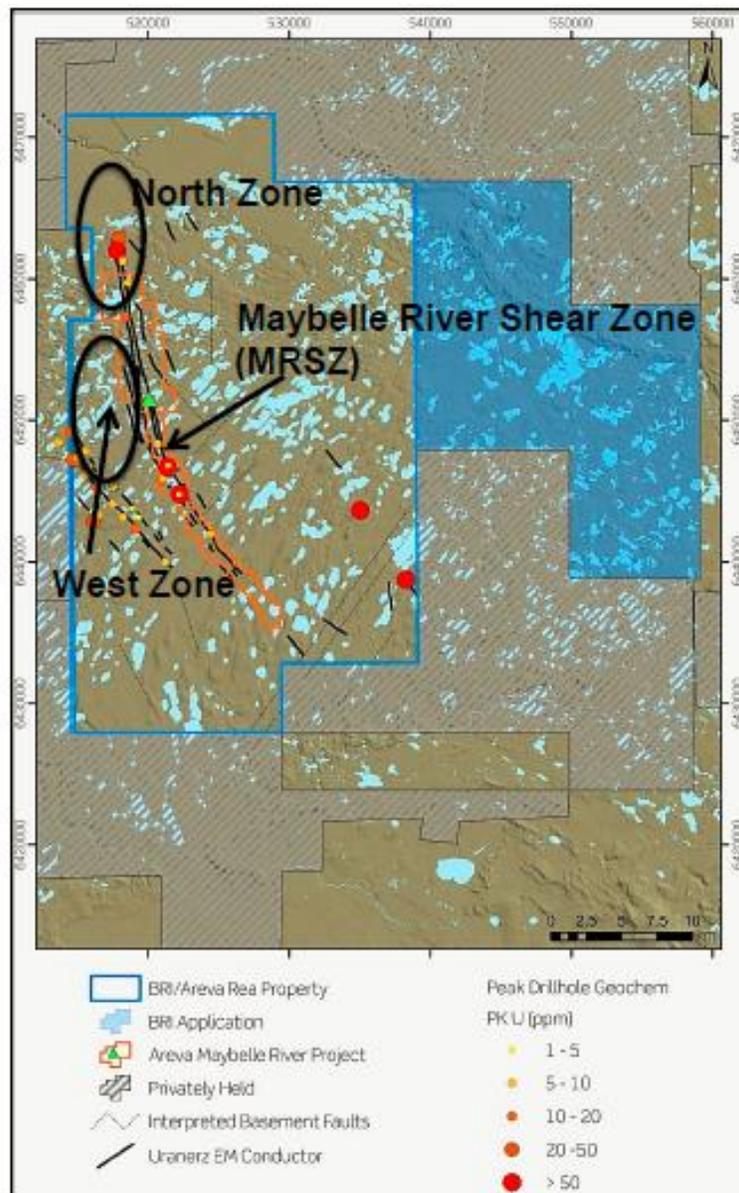
I include **[Brazil Resources Inc \(BRL.V\)](#)** in this very select group. I have been a committed shareholder of the company since it was a private concern and participated in its recently oversubscribed private placement. BRI raised \$4.1 million at a slight premium to its prior trading price.

Given the severity of the ongoing bear market, I remain encouraged that good companies can still procure equity financings without suffering substantial dilution. Market veterans will recall that there was absolutely no money available for exploration or mining deals during the mother of all bear markets from 1998-2003.

Brazil Resources is an advanced gold explorer in the northern part of the eponymous country. It has been relatively quiet since my last musing in mid-Q2 of 2014 (**[Mercenary Musing, May 22, 2014](#)**). I encourage you to refresh your knowledge of the company and its gold projects by reading this previous summation.

In September, Brazil Resources submitted a technical property report on another asset, the Rea uranium project in the southwestern Athabasca Basin of Alberta. This is a relatively unexplored area, and the project consists of 12 contiguous exploration permits covering approximately 885 sq km. Rea surrounds Areva's shallow, high-grade Maybelle River uranium deposit and is a joint venture 75% owned by BRI and 25% by Areva.

Historic exploration in the area by two major uranium producers in the late 1970s to late 1990s included geochemical and geophysical surveys, prospecting, and drilling that resulted in discovery of Maybelle River. From 2005 to 2012 two juniors, subsequently acquired by Brazil Resources and Areva respectively, did additional work including minor drilling. They traced the hosting shear zone onto Rea project ground for an 11 km strike length and delineated parallel targets that remain untested. All targets are shallow and located at the Athabasca unconformity and basement rock contact:



In November, the company announced the previously mentioned private placement intending to raise \$2.5 million and ultimately closed the financing at nearly \$4.1 million with strong participation from insiders, its core group of early supporters (including yours truly) and new investors. In addition, a new CEO and a new President were named; both are geologists and were promoted from within the company.

Here's a chart from the beginning of 2014:



After closing a \$6.4 million oversubscribed private placement at 55 cents at the end of 2013, Brazil Resources began 2014 in the low 50s. But it did not trade there for long. The company went exponential reaching its yearly high of \$1.44 in early March. It corrected to the mid-90s by mid-spring.

Subsequent to my renewal of coverage, BRI traded as high as \$1.07 in early June before reverting back to its previous level around 90 cents thru the summer doldrums. After Labor Day, the stock price followed the TSXV Index when the US dollar rose and gold prices went south. It touched 48 cents during the height of tax-loss selling in mid-December and closed today at 54 cents.

With 80.6 million shares outstanding, Brazil Resources has a current market cap of about \$44 million. There are 102.4 million shares fully diluted that include 20.0 million warrants at 75 cents with expiries in December 2018 and January 2019. Options to employees, insiders, and directors number 1.8 million and range from \$1.03 to \$1.50. Management and insiders own 25%, various institutions control 30%, and 45% is in public float. The company has a burn rate of \$200,000 per month after initiating cost-cutting measures in late 2014. Following completion of the recent financing, my estimate of current cash position is about \$4.8 million.

Since BRI went public in May 2011 at 65 cents and opened at \$1.00, it has traded a total of 112 million shares at an average price of 91 cents. Despite the ongoing bear market, the trading history since IPO has been on average relatively flat.

I consider the relatively low liquidity and average share price a strong endorsement of the company and its strategic investors' commitment to the stock. Note that liquidity improved dramatically in 2014. There are a variety of reasons for this including a substantial new shareholder base via the acquisition of Brazilian Gold in late 2013, the OTCQX listing, enthusiasm for its uranium project as an area play near recent discoveries, and increased promotion by the company.

Brazil Resources primary focus is on four advanced gold projects in northern Brazil with current qualified resources totaling 3.9 million ounces in all categories. The company also remains on the acquisition hunt for distressed gold assets in Brazil and other South American countries. At this stage in the ongoing bear market, there are certainly candidates that come to mind.

Given recent exploration success by other juniors in the southwestern Athabasca Basin, BRI's Rea uranium project is particularly attractive. It is outside of the company's core assets and is not assigned value by the market.

Therefore, I opine that Brazil Resources will spin out the Rea project in some form within the next year. Options that come to mind include a newco, a strategic alliance with joint-venture partner Areva, or an outright sale to the private uranium major.

At its closing share price of 54 cents, BRI is trading just below the financing that closed last week and only 6 cents above its yearly low during December's tax-loss selling.

I have written and talked extensively about contrarian speculation and buying stocks when they are on sale ([Mercenary Musing, December 22, 2014](#); [BNN, December 23, 2014](#)). I submit that Brazil Resources fits very well into this category with a historic trading value well above current share price, a kitty for gold acquisitions, and a uranium project that is a likely candidate for near-term spinoff.

As per usual, I put my money where my mouth is by taking down a piece of the recent private placement. Note that this purchase was a significant "average up" to my cost basis per share.

Please realize that I am not a financial advisor and simply let you in on some of my moves in the market. That said, I encourage you to take a detailed look at Brazil Resources Inc and see if you agree with the opinions expressed herein.

Ciao for now,

Mickey Fulp
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Acknowledgment: Gwen Preston is the editor of [MercenaryGeologist.com](#).

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 35 years experience as an exploration geologist and analyst 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 worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 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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