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Mercenary Alert

Comments on the Companies I Cover: Q3 2011

A Special Alert Musing from Mickey the Mercenary Geologist

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Stock markets worldwide have undergone a volatile, unsettled, and trying summer. The commodities market is the only sector that has prospered with record prices for gold, and robust prices for other precious metals, oil, industrial metals, and soft commodities. Despite world economic woes, “stuff” is still in strong demand, short supply, and driven by speculation.

Now that the dreary dog days and doldrums are past us, I look optimistically to the fall and a better time for all markets, but especially the junior resource micro-caps.

In this Mercenary Alert for subscribers’ eyes only, I’ll review the progress and current status of the 10 companies that I currently cover and discuss the four that were dropped since summary reviews in December 2010.

[Almaden Minerals Ltd \(AAU.AMEX; AMM.T\)](#): I introduced Almaden Minerals to subscribers in mid-July 2010 at 88 cents US and it achieved a double in less than 20 trading days with discovery of Ixtaca, an epithermal gold-silver deposit in Puebla, Mexico. As Almaden’s drill success continued, the share price reached a high of \$5.35 in late April. AUU has been trading in the low \$3 range but showed strength in the past week and broached the \$3.40 level.

In early September of last year I visited the Elk Mine project near Kelowna, B.C. In February Almaden announced sale of the project to Gold Mountain Mining Corporation (GUM.TSX.V), a company whose principals have development and mining experience in British Columbia. It currently holds more than 40% equity interest in GUM and a 2% NSR royalty in the Elk Mine.

I last wrote about Almaden in an Alert when the game-changing Ixtaca discovery was made. The company has drilled significant mineralization over a strike length of 1000 meters and continues to delineate and expand it with three drill rigs. It has developed other soil geochemistry and geophysics targets in the area that will be drilled systematically. In addition, Almaden has secured two new joint ventures with juniors on its projects in Mexico.

AAU's current working capital position is \$25 million in cash, securities, and gold bullion, not including its equity position in GUM currently worth \$30 million. I will be touring several projects in southern Mexico after the rainy season in the fall; Ixtaca, Caballo Blanco, and El Cobre will be included.

Avrupa Minerals Ltd (AVU.V): I first mentioned Avrupa Minerals in a Mercenary Alert on start-up prospect generators in early January and delivered a musing to subscribers on March 4. Avrupa went from 42 to a high of 60 cents and currently trades in the low 40 cent range.

I visited the company's projects in Kosovo and Portugal in May and reported on my trip in early July. Since that time, AVU has updated drilling progress on three holes in the northern extension of the Pyrite Belt of Portugal and announced a three to four hole "drill to kill" program at its two lead-zinc-silver plays in Kosovo.

The company continues to progress in its joint venture with Antofagasta Minerals in the productive part of the Pyrite Belt. I remain a committed shareholder of AVU for two reasons: Its JV with mid-tier miner Antofagasta in a very prospective part of the world for economic copper-zinc deposits and its possible expansion into other countries in Eastern Europe.

Brazil Resources Inc (BRI.V): A Mercenary Alert was issued to subscribers describing a new gold explorer and developer, Brazil Resources Inc, in mid-June. It closed at \$1.20 on that day and my Alert apparently became a liquidity opportunity for some early shareholders to get off the stock. BRI traded unusually high volumes for two days that drove the price down to \$1.09. It has reached an all-time high of \$1.45 twice and currently trades in the \$1.15 range.

The company has been active in the past three months with strengthening its Board of Directors and advisory teams, a U.S. listing on the OTCQX, and acquisition of a significant gold target in the emerging Gurupi Gold Belt of northeastern Brazil. I'm expecting other catalysts in the near term for BRI and think it is well-positioned to implement a plan of becoming a mid-tier gold producer.

Estrella Gold Corporation (EST.V): Estrella Gold was also on my prospect generator watch list in early January while trading around \$1.00. I waited until it showed significant weakness in the early summer and initiated coverage in late June at 71 cents with a subscriber-exclusive Mercenary Alert. With low liquidity, the stock briefly traded in the mid-90s a couple of times before falling back to the upper 60 to low 70 cent range. It has rallied to the mid-80s in the past two sessions on no news. I followed-up the Alert with a field visit to three projects in Peru in mid-July.

Estrella has been very busy since late June. The company raised over \$4 million at 65 cents with two groups of strategic investors, announced changes to the Board of Directors and officers, moved corporate headquarters to Vancouver, and currently is drilling the Colpayoc project in the Yanacocha district of northern Peru. Results from the first two holes have expanded the thick, low-grade Daylight Zone gold mineralization along strike.

Estrella Gold Corp is an aggressive and active prospect generator and is pursuing new targets with a state-of-the-art geological database in southern Peru. I have participated in its past four financings and am a committed investor.

Mawson Resources Ltd (MAW.T): I issued a Mercenary Alert on Mawson Resources last November 16 after it closed at \$1.00. In just four days of trading, subscribers that follow my philosophy had their double, cash back, and free-trading shares and in seven days, Mawson hit a high of \$2.68. It has built a very strong chart over the past 10 months between \$1.75 and \$2.25 on good volumes.

Mawson's flagship project is a bonanza grade gold-uranium discovery at Rompas in northern Finland. The company now controls over 750 sq km in the project area and has spent the 2011 field season prospecting, mapping, and sampling on the regional, district, and local scales with very encouraging results. I visited Rompas in late May and was impressed with its geological team and their findings. I also visited a second project of merit, the Alto Quemado copper-gold porphyry in southern Peru, on my jaunt in July.

With a cash position of over \$11 million, a good understanding of geological controls, and exploration licenses pending in Finland, Mawson is positioned to drill its high-grade gold-uranium prospects at Rompas during the 2012 field season. A drill program is also scheduled at Alto Quemado early next year.

Reports on the summer field season results at Rompas will be near-term catalysts. I will recount my visits to Mawson's Finland and Peru properties in a musing soon.

Medallion Resources Ltd (MDL.V): Medallion Resources was brought to my readers' attention in a late February REE Review. Medallion launched a new business plan to acquire monazite-bearing heavy mineral sands and heavy rare earth ionic clay projects. The stock had closed at 37 cents when subscribers were notified of my interest and went as high as 44 cents a few weeks after. A major correction in the rare earth sector affected all stocks in May and June. Since mid-June Medallion has traded in the 20 cent range with no significant news. Recently MDL posted an update on its monazite sands acquisition strategy and progress.

I picked Medallion Resources as a sponsor company because management assured me that monazite sands and/or ionic clay acquisitions would be in place within 12 months. The company has until March 2012 to execute its business plan and I will remain a committed shareholder for at least that long.

Quest Rare Minerals Ltd (QRM.V): Quest Rare Minerals became a website sponsor in late March 2010 while trading at \$2.85. I wrote subsequent musings on Quest in November 2010 and April 2011. Since coverage was initiated, QRM's low trade was \$1.77 in early July 2010 and its all-time high was \$8.88 in late April before the REE sector sell-off. It has traded in a range of \$4 to \$5 over the past month.

News since April has been significant. Quest obtained an AMEX listing, posted a new engineered resource estimate for the Strange Lake deposit, initiated a pre-feasibility study with delivery scheduled by year's end, and reported on positive metallurgical progress.

I toured the Strange Lake project in early August and saw considerable progress since my first visit two years ago when the B Zone discovery was made. With about a month left in the 2011 field season, there are five drill rigs turning and about 100 people working at the camp. I will report on my second field excursion to Strange Lake in the near future.

Strathmore Minerals Corporation (STM.T): Strathmore Minerals is one of my longest-tenured portfolio holdings. I became involved with the company in July 2007 soon after becoming an analyst and bought shares and wrote two private evaluation reports that year. It became a sponsor of my website in early March 2009 at 22 cents. The double and out was reached in less than seven weeks at 48 cents in mid-April.

I subsequently wrote about Strathmore in late 2010 and April 2010. Strathmore reached its post-crash high of \$1.68 in early February 2011. Post-Fukushima, it fell as low as 48 cents but now has established a base of about 60 cents on relatively light volume. Since I last wrote about STM, numerous material events have occurred including Toronto main board and OTCQX listings, changes to the Board of Directors,

initiation of a share buy-back program, sale of a non-core asset, and significant progress on its two flagship properties.

Strathmore and JV partner Sumitomo are progressing with a bankable feasibility study at Roca Honda in the Grants Mineral Belt of New Mexico. A mine permit application was submitted last year and independent contractors retained to lead the study and prepare an Environmental Impact Statement. Work on submission of a mill site permit application in early 2012 is progressing.

At Gas Hills, Wyoming, Strathmore acquired historic data packages, completed a development drill program, advanced permits and environmental studies for mine and mill sites, and produced 43-101 resource estimates for four deposits. Most importantly, it recently announced a proposed agreement with Korean Electric Power Company (KEPCO) for a feasibility study of the Gas Hills deposits and exploration on outlying properties. KEPCO must commit \$45 million in staged payments over four years to earn 40% of the joint venture.

STM continued to divest of non-core uranium assets with the sale of the Juniper Ridge project in Wyoming to Crosshair Exploration in late 2010. The company produced a qualified resource estimate for the Marquez deposit in the Grants Mineral Belt in mid-2010 and a positive scoping study for the Church Rock ISR project in the western part in Q2 2011. These properties are available as part of STM's divestiture strategy to fund Roca Honda and Gas Hills uranium development projects.

I remain a committed shareholder of Strathmore Minerals Corp, have not sold a share since my initial investment in 2007, and made several subsequent buys in 2008 and 2009.

Tarsis Resources Ltd (TCC.V): Tarsis Resources was one of the three up and coming prospect generators featured in my Mercenary Alert on January 7 when it closed at 48 cents. The company soon went on a run and reached its all-time high barely a month later at 95 cents. I formally started coverage of TCC in a Mercenary Alert to subscribers on July 5 at 52 cents. It popped to 74 cents on positive news within two days but has gone on a steady decline since then as the late summer doldrums took their toll on thinly-traded junior stocks. Tarsis currently trades in the mid-40 cent range.

This decline is despite positive news from prospecting in the Yukon this summer, drilling by JV partner Silver Quest at Prospector Mountain, and a recent report on final drill results at the Erika project in Oaxaca, Mexico where a new sediment-hosted gold discovery produced 3.6 m of over 2 g/t Au. Erika is among the projects I will see in Mexico in October or November.

With a very tight share structure, common management with long-lived prospect generator Almaden Minerals, Kinross as a strategic investor at 9.9%, a new discovery in Mexico, and an on-going reconnaissance exploration program in the Yukon, I opine there are better times ahead for Tarsis Resources Ltd and its shareholders.

Tasman Metals Ltd (TSM.V): Rare earth element explorer Tasman Metals Ltd was chosen as a sponsor in late May 2010. My timing could hardly have been worse. Tasman closed at \$1.00 before my musing went to subscribers and within a month it dropped to a low of 51 cents as the Greek debt debacle pummeled the markets. However, a month later Molycorp was public and the REE sector went on a roll after Labor Day. Subscribers that entered the market when I first wrote about TSM had their double in less than six months. Since that time, Tasman reached a high of \$5.98 and currently trades in the mid-\$3 range.

Tasman Metals has made significant progress over the past year with an accelerated program at its flagship Norra Karr project in southern Sweden. Tasks accomplished or pending include: Completion of three rounds of drilling, an initial 43-101 resource and an update in progress, preliminary bench-scale metallurgical testing, a TSX Tier 1 listing and application for an AMEX listing, additions to the technical staff of an engineer and a project manager, and initiation of a scoping study for delivery in 2011. It drilled four holes at a Nb-REE project of merit, Otanmaki in Finland with results expected soon. TSM has a current cash position of over \$13 million.

I visited the Norra Karr project on my multi-county tour of Europe in the late spring and will review in a new musing in the fall.

Four companies were dropped from coverage since my last updates in December 2010. Please note that I remain bullish on the prospects for the first two:

[**Goldgroup Mining Inc \(GGA.T\)**](#) was dropped February 1 upon expiration of its six month sponsorship when I made a decision to exit coverage of the overbought junior gold sector. I picked GGA in early July 2010 at 65 cents and it rewarded subscribers with a double in four and a half months. As a founding shareholder of its predecessor company, I remain a committed shareholder. Goldgroup currently trades near its all time high of \$1.65 with strong institutional buying of late and I expect the company to have much positive news in the next few months.

[**Amarillo Gold Corp \(AGC.V\)**](#) was in a similar situation as GGA.T in early 2010 when I initiated coverage of the company prior to the PDAC. At the time Amarillo was an illiquid and undervalued 65 cent stock with little promotion and public relations but good share structure, people, and projects. In nine and a half months, it nearly tripled to \$1.90. After one year I considered my work for the company's shareholders done and wanted to reduce exposure to the junior gold sector so I discontinued coverage. Amarillo currently trades in the \$1.50 range and I still hold a portion of my stock position as a founding shareholder of the company. The pre-feasibility study at its Posse deposit in Brazil is expected in Q4 and is a near-term catalyst for the company.

[**Eurasian Minerals Ltd \(EMX.V\)**](#) was dropped on March 1 when its contract ended because I no longer saw share price upside when compared to new prospect generators. Management's unwillingness to commit to a continuous sponsorship and late payments were also factors. The company was first picked in June 2009 at \$1.32 and reached an all-time high of \$3.88 in early January for nearly a triple for subscribers. I divested of final holdings in March; it currently trades at about \$2.70.

[**Otis Gold Corp \(OOO.V\)**](#) was first covered in early March 2010 and traded at 52 cents at the time. It reached an all-time high of 84 cents at the beginning of this year on positive drill results. However, there were no further results released for over seven weeks and the stock lost momentum. I dropped Otis in mid-May after 15 months; it currently trades in the mid-30s.

Otis is one of only two stocks among 17 picks since the beginning of September 2008 that did not achieve at least a double in 12 months or less; the other company tripled in 13 months.

In my opinion, the company has the same problems that were apparent when it became a sponsor 18 months ago and I thought could be remedied. These include: Insufficient IR budget and ineffective promotion; lack of timely results from the geological team; and a management that overpromises and under delivers. Simply put folks, I made a mistake with this one.

I continue to hold my shares for the long-delayed Kilgore project resource estimate and a better share price. Failing that, I will take a year-end tax loss.

My record of 16 of 17 success stories in three years has been pretty remarkable. However, realize that I initiated the sponsorship business model in typical contrarian fashion when the global economic meltdown started in earnest and four months from the bottom. The bull market in junior resource stocks that followed in 2009-2010 was spectacular but 2011 has not been so kind to speculators in this sector. Rest assured that I know better than to confuse a bull market for my brain.

I trust this update is of interest and of value to my loyal subscribers. You are the sole reason that my business as an analyst, writer, and speaker is successful and continues to grow by leaps and bounds.

I will continue to educate the layman on the ways and means of the junior resource market. I hope to continue finding undervalued stocks that will reward speculators who are willing to do their own due diligence and research before investing in this high risk/ reward endeavor.

Ciao for now,

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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 24 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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