



## **Mercenary Alert: Prospect Generators Update**

**A Special Alert Musing from Mickey the Mercenary Geologist**

**For Subscribers Only**

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**July 20, 2012**

It is in down times like these when the junior resource prospect generator model reveals its real worth.

A prospect generator company shares risk by partnering with other companies that invest their capital and move early-stage exploration projects toward development and production.

The goal of the prospect generator is to preserve capital and avoid share dilution by spending another company's money to explore and develop its projects. If done effectively, the company increases its life span and generates significant cash flow from its optioned properties, minority working interests, royalties from mining projects, or the outright sale of a project to a developer or miner.

The successful prospect generator continually generates a number of prospects, entices other companies to spend money exploring and developing on its behalf, maintains low G & A, exploration expenses, and burn rate, hoards equity capital, and preserves a well-managed, tight share structure with a low number of shares outstanding.

However, there is one potential difficulty with the prospect generator model. Because most companies running the business plan are generating early-stage projects, younger ones often have no flagship project with a mineral resource. Therefore, analysts and speculators cannot do a market valuation per unit of in-situ metal to compare the company with its peers. As a result, the market capitalizations of prospect generator companies can suffer more in extended bear markets.

That said, the prospect generator is built for the long haul. Time is on its side and given time, success is likely to come and shareholders will be rewarded. For a detailed review and discussion of the model and its permutations, please consult the musing I wrote two years ago for my "[A Primer for the Lay Investor](#)" series.

The Toronto Venture Exchange Index is a proxy for the junior resource sector. Since a two and a half year high was established on March 4, 2011, the index has gone from 2440 to 1190 for a loss of 51%:



Chart Courtesy of MSNMoney.com

The many reasons for this steady decline in junior market valuations were enumerated in a musing posted two months ago entitled, “Why Gold Stocks Suck” ([Mercenary Musing, April 30, 2012](#)).

There are numerous prospect generators listed on the TSX Venture Exchange with a few more on the TSX and AMEX exchanges. In the 4+ years of writing these Musings, I have covered five of them. Three prospect generators currently are paying sponsors of my website, coverage was initiated in the first half of 2011, and I am a shareholder of each:

- [Avrupa Minerals Ltd \(AVU.V\)](#)
- [Estrella Gold Corp \(EST.V\)](#)
- [Tarsis Resources Ltd \(TCC.V\)](#)

Let’s take a look at the progress at each of these companies since I last reported:

**Avrupa Minerals Ltd (AVU.V):** I initiated coverage in early March 2011 at 42 cents; it immediately popped to 60 cents. Its last Venture trade was on July 10 at 25 cents for a loss of 40%. The AVU chart is typical for a Venture-listed junior as per the Index shown above:



Avrupa has been range-bound between the high teens and 25 cents since mid-April on sparse volumes with most buying by insiders, family, and friends who now control over 40% of the shares. It maintains a very tight share structure with 20.3 million shares outstanding and 33.3 million fully diluted with 10.3 million of that as out-of-the-money warrants. Market capitalization is about \$5.1 million, cash position is estimated at \$550,000, and the monthly burn rate for the Vancouver back office, G&A, and active exploration in three countries in Europe is about \$150,000. I expect a new financing plan will be tabled by the company in the near future.

The company continues to progress in its joint venture with Antofagasta Minerals in the northern part of the Portugal Pyrite Belt. Initial drilling of eight stratigraphic holes in three targets found the district's prospective package of rocks where AVU's new geological model predicted and massive sulfide-style alteration and stringer-type copper mineralization were encountered.

In northern Portugal Avrupa has a joint venture on its Covas tungsten-gold advanced play with Blackheath Resources, a recently-listed Venture company. It is led by a Vancouver-based mining engineer with a successful junior track record and a team with prior experience mining tungsten in Portugal. Covas has a historic indicated and inferred mineral resource of 922,900 metric tonnes grading 0.78% WO<sub>3</sub> as determined by Union Carbide in 1981.

Three new exploration licenses have been granted for gold adjacent to Covas, in the Pyrite Belt for massive sulfide and porphyry copper-gold targets, and in southwest Portugal on an alkaline intrusion complex prospective for base and precious metals and rare earth elements.

In Kosovo, four holes were drilled on Trepca-style lead-zinc-silver targets. Two of these encountered prospective alteration but no significant mineralization. Recently, three new concessions were granted for grassroots porphyry copper, structural gold, and lead-zinc-silver targets. The company is actively seeking a joint-venture partner for its Kosovo projects.

Avrupa recently has expanded into a third area of Europe, the Erzgebirge (*Ore Mountain*) district of Saxony in eastern Germany. The region is famous for its past silver and tin production, home of the premier mining school at the University of Freiberg, and the subject of the first book on geology, mineralogy, and mining by Agricola (*De Re Metallica*, 1556). AVU has developed a new geological

model and is seeking intrusive-related gold and tungsten deposits in the district. I will visit this new project in late August.

Avrupa is led by a team of geologists and engineers with strong track records of discovery in Europe. It recently completed acquisition of its private Portuguese partner thus cutting office, corporate, and administrative expenses in that country.

I am a shareholder of AVU for several reasons: The JV with mid-tier miner Antofagasta Minerals in a very prospective part of the world for economic copper-zinc deposits; its recent expansion into the Erzgebirge district of Germany; a technical team that continues to generate high quality prospects with a successful track record vending them to partners; and a tight share structure with experienced management and financiers.

**Estrella Gold Corp (EST.V):** I initiated coverage of this Peruvian prospect generator in late June 2011 when the stock was trading at 71 cents. It traded as high as 96 cents in late July but has continued to fall since then and was last at 15.5 cents. EST has lost 78% of its value during my tenure. Past private placements included brokers with retail shareholders and led to large periodic sell-offs as shown by the volume chart below. To his credit, the CEO increased his holdings this year.

EST has moved to cheaper offices, reduced staff, and cut overhead in Peru by 50% this year. With outstanding shares of 24.3 million, market capitalization is \$3.8 million, cash position stands at about \$440,000, and the monthly burn rate for the Vancouver back office, Peru office, property holdings, and G&A, is about \$90,000. The company intends to raise money well before year's end.



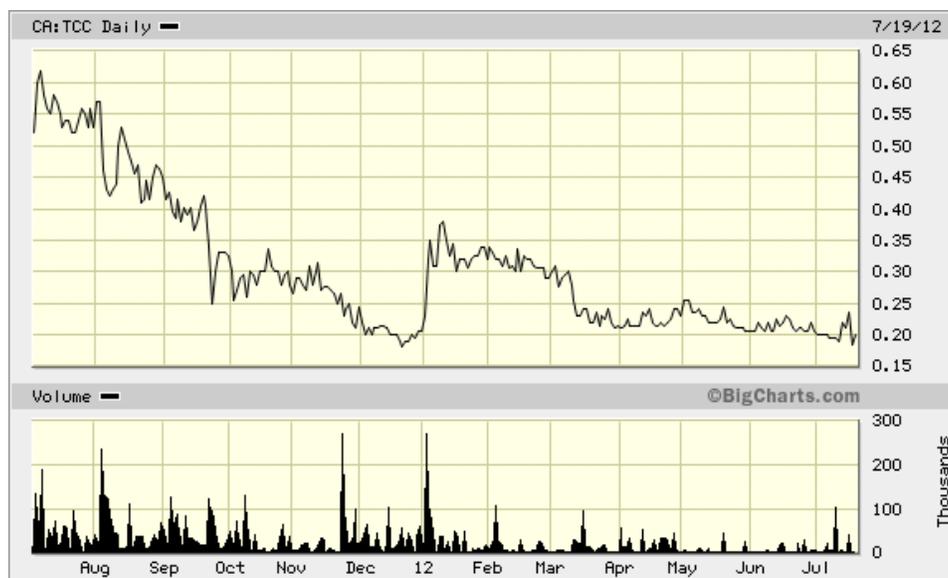
I reported on Estrella Gold recently ([Mercenary Musing, April 15, 2012](#)) and will give only a brief update on developments since then. EST renegotiated key agreements at its Colpayoc gold project for significantly reduced property payments, no work commitments, and an extension of terms. It has paid most of its obligation for 2012 and now is actively seeking a partner. However, with recent civil unrest in the Yanacocha district, finding a partner is likely a tall order at this juncture.

Drilling has started on La Estrella in central Peru with partner and AMEX-listed Mines Management Inc. Phase I drilling of 11 holes with partner and NYSE-listed Cliffs Natural Resources has been completed at Pampa Poroma with results and assays pending.

Estrella Gold Corp is an aggressive and active prospect generator and pursues new targets with a state-of-the-art geological database in southern Peru. It has successfully ventured prospects to strong joint-venture partners. My cost basis is much higher than its current trading range but I remain a dedicated investor in the company for these reasons, its share structure, management, and its strategic investor base.

**Tarsis Resources Ltd (TCC.V):** I initiated coverage in early July 2011 with the stock trading at 52 cents. It traded today at 20 cents for a loss of 64%. Low volumes in 2011 have been supported by insider buying and exercising of warrants at a higher strike price than the open market. Its share count is 32.2 million with 39.9 million fully diluted including 4.3 million out-of-the-money warrants at an average price of 43 cents.

Management owns over 11%, successful prospect generator Almaden Minerals owns 15%, and major gold producer Kinross owns 9.9 % of the company. Tarsis has a current market capitalization of \$6.4 million, and cash position is about \$225,000 with a monthly burn rate of \$40,000. The company will obtain its next round of financing soon.



Since my last update on Tarsis in Q3 2011, the company has made considerable progress on its Yukon reconnaissance targets. It announced anomalous sampling results from two new claims in the Selwyn Basin, where targets are sediment-hosted precious metals mineralization; high-grade rock and trench sampling results from its White River gold-silver-copper play; and 100% of the Prospector Mountain project was returned by its former partner upon change in control.

In February TCC raised \$1.2 million in an oversubscribed private placement financing with its core group of strategic investors.

More recently, Tarsis optioned the new White River Gold project to fellow junior Driven Capital Corp for a combination of stock, cash, and a significant work commitment to earn 60%. A 1500 meter core drill program commenced in mid-June. I visited the project with CEO Marc Blythe and consulting geologist and Yukon veteran Bill Wengzynowski in mid-June as the drill was being assembled.

We observed widespread mineralized showings in outcrops and trenches along boundaries of wide structural corridors marked by recessive topography. The project is located on a ridge above the White River and within seven km of the Alaska Highway. Here's a photo of the project geologist aligning the drill:



### **Drill at White River Gold Project**

Additionally, TCC is actively seeking a joint venture partner for the intriguing Erika Carlin-type gold discovery in southwestern Mexico. The company recently entertained field visits from major and mid-tier gold miners interested in its potential to contain large-size sediment-hosted gold deposits.

Tarsis' has had success with discovery and vending of prospects of merit in the Yukon. That said, I have had recent discussions with the company's management and financiers and suggested the focus of reconnaissance efforts perhaps should be elsewhere until the junior market rebounds. There are two main reasons: Exploration costs in the Yukon are quite high because of steep terrain, remoteness, and lack of infrastructure; and the short season leads to down time for much of the year when field work is not possible and news flow is sparse.

I am a shareholder of Tarsis Resources Ltd because of its tight share structure, committed management and financiers, Almaden Minerals as a significant shareholder, Kinross as a strategic investor, a new Carlin-type discovery in southwestern Mexico, and on-going reconnaissance exploration programs that continue to produce prospects and partners.

Although I am not pleased with market valuations of these prospect generators, I am content with their key criteria of share structure, people, and projects. That said, all three are failures using my Power of Two investing philosophy and they will be recorded as such for the on-going tally. My cost basis for each is higher than the current share price.

Since I launched the sponsorship model in September 2008, 15 of 22 covered stocks have doubled in 12 months or less and one tripled in 13 months. So please forgive my largess to our business, but we consider 16 of 22 stock picks as big winners.

Overall market conditions are largely to blame for these prospect generators' low share prices. I do not foresee catalysts for improvement this summer but hope for better valuations for the entire junior resource sector in the fall.

May I suggest if you like the benefits afforded by the prospector generator model, any of these companies could fit the bill for speculation at its current low market valuation. Please do your own careful research and due diligence before buying or selling in any junior resource stock.

Ciao for now,

Mickey Fulp  
Mercenary Geologist



**Acknowledgement:** Erin Ostrom is the editor of [MercenaryGeologist.com](http://MercenaryGeologist.com).

The [Mercenary Geologist Michael S. "Mickey" Fulp](http://MercenaryGeologist.com) 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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**Disclaimer:** I am a shareholder of Avrupa Minerals Ltd, Estrella Gold Corp, and Tarsis Resources Ltd, and each pays a fee of \$4000 per month to sponsor this 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

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