



Mercenary Alert: The Stars are Lining up for Estrella Gold

A Special Alert Musing from Mickey the Mercenary Geologist

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The prospect generator model is one of my favorite business plans for the junior resource sector ([Mercenary Musing, July 12, 2010](#)). A prospect generator has the ability to preserve capital and equity by joint-venturing its early-stage projects to other companies who then spend their dollars to explore and advance them. Conversely, the company becomes a minority partner in its plays. With a cadre of geologists that has particular expertise in a commodity, mineralized region, and/or deposit type and continually generates a pipeline of meritorious projects, the successful project generator increases the odds of discovery and ultimate success.

The junior resource sector was booming in mid-2010 when I wrote the above musing. It continued to prosper and reached a three-year high immediately before the PDAC of early March 2011. Since then, several factors including the Japan tsunami and earthquake, continuing global economic worries in Europe, inflating exploration, development, and operating costs, slowdown of growth in China, and a reluctance of financial institutions to fund exploration and development projects have overhung a bearish micro-cap resource market.

This sector-wide erosion in market capitalization has occurred despite a continuing secular bull market in commodities prices, with many metals reaching all-time highs within the past twelve months and most still trading at robust prices.

The prospect generators that I own have not been spared; in fact, they have generally seen market caps drop more than the 40% TSX.V market index downtick in the past 13 months. This is not uncommon for the business model; prospect generators suffer the same as other stocks in bear markets. Additionally, because they generally have a portfolio of early-stage projects without qualified resources, a bear market tends to assign less value to prospect generators than advanced explorers with ounces or pounds in-the-ground.

That said, one real advantage of the prospect generator model is that a company can survive extended bear markets because of its aforementioned preservation of capital and equity. While other companies are spending equity-financed dollars to explore, the prospect generator can operate with relatively minor expenditures for corporate administration, concession payments, and on-going reconnaissance mapping and sampling when markets are down. Extended down time also affords opportunities to acquire good ground at a discount when competitor land positions are abandoned.

One of the worst performers currently in my portfolio is Peruvian prospect generator [Estrella Gold Corp \(EST.V\)](#). I first mentioned the company in early January 2011 as a stock to watch and launched coverage in late June at 71 cents ([Mercenary Musing, June 28, 2011](#)). It is presently trading at a 52-week low of 21 cents for a paper loss of 70%.

I have participated in four private placements in Estrella at 50 to 80 cents since it was re-organized in late 2009. Rest assured that I have plenty of my speculative dollars invested in this company.



In my opinion, Estrella Gold Corp is currently on sale at 21 cents.

The company has 24.1 million shares outstanding and 40.2 million fully diluted. However, that total includes 12.9 million warrants that are far out-of-the-money with expiries from July 2012 to July 2013. Market capitalization is a paltry \$5 million. Estrella has \$1.9 million in working capital, enough to satisfy exploration, property, and G &A expenditures until year end with a burn rate of about \$100,000 per month. No current information on insider, family, and friends holdings was forthcoming from the company but based on my previous report, it is tightly held.

Since my last full report, Estrella Gold strengthened its Board of Directors, moved its corporate office and administration to a less expensive venue in Vancouver, staked new prospects and optioned out additional properties, and drilled and increased the 43-101 resource estimate at its Yanacocha District property.

EST currently holds 38 properties; most of them are in southern Peru with 34 joint ventured to other companies. Included in its joint ventures are 29 prospects in a strategic alliance with steel-industry giant Cliffs Natural Resources and the Pampa Poroma designated project currently being drilled, La Estrella and Cerro Cori with AMEX-listed Mines Management Inc of Spokane, Washington, Isy with junior prospect generator Lara Exploration, and Pucarana with Esperanza Resources:



Estrella Gold's Projects in Peru

Projects currently available for joint venture include:

Colpayoc is located 12 km from Newmont-Buenaventura's Yanacocha mine in northern Peru. It has a 313,000 ounce 43-101 inferred gold resource in the Daylight zone and a high-grade silver occurrence in the Cerro Rico zone. There are numerous undrilled porphyry gold targets within the landholdings.

Ccello Ccelo-La Tola is a large area of epithermal and porphyry alteration in a contiguous claim block covering 70 sq km. Ccello Ccello is a high-sulfidation system related to structurally-controlled gold-silver mineralization at La Tola. In 2004 Newmont ran comprehensive geophysical surveys and drilled 18 reverse circulation holes at La Tola with some significant intercepts.

Sense is a volcanic-hosted epithermal alteration system covering 35 sq km with a stream sediment gold anomaly. It is located 20 km southeast of the six million ounce Chucapaca gold deposit of Goldfields and Buenaventura.

In addition, Estrella controls a large concession in covered terrain north of Barrick's giant polymetallic Pueblo Viejo deposit in the central Dominican Republic.

Estrella Gold Corp is a prospect generator that has executed its business plan with much success since ace geologist and CEO Keith Laskowski took over management about two and a half years ago. However, it has not been successful in rewarding its shareholders. Most of its decrease in market capitalization over the past year can be blamed on general micro-cap market conditions and relentless selling thru a Toronto-based brokerage house for the past five months. Management thinks most of this selling is from retail shareholders placed in brokered private placements from late 2009 to mid 2011.

Estrella retains a very tightly held share structure and it has a strong technical team that continues to generate many prospects of merit in southern Peru. *Estrella* means “star” in Spanish; I think the company’s stars are lining up and it is poised to take off when the junior resource market turns around.

I remain a dedicated share holder of EST and have never sold a share since first buying its compelling story in December 2009. Note that Estrella Gold Corporation is a sponsor of my website and my views are obviously affected by my financial involvement with the company.

That said, it is my opinion that its shares are currently on sale. If you are not already a shareholder, do your own due diligence and see if it matches your checklist for speculation at today’s relative low price.

Ciao for now,

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Acknowledgement: Erin Ostrom is the editor of 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 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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