



Mercenary Alert: Boldly Building in a Brazilian Gold Belt

A Special Alert Musing from Mickey the Mercenary Geologist

For Subscribers Only

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Thirteen months ago I introduced subscribers to a new Brazilian explorer with bold plans to build a mid-tier gold producer in a mid-term time frame ([Mercenary Alert, June 15, 2011](#)). My analysis showed [Brazil Resources Inc \(BRL.V\)](#) had the requisite share structure and people to succeed. At that time it was working on the third essential part of my equation, i.e., projects.

I updated the company's progress with its acquisition of four early-stage exploration plays and commented on its near-term plans to acquire ounces in-the-ground about five months ago ([Mercenary Alert, February 9, 2012](#)).

The latter happened this past week. Brazil Resources announced an agreement to acquire 100% interest subject to a 4% net profits interest and government royalty in the Cachoeira project from small-tier producer Luna Gold Corp.

Total payments over the four-year term of the agreement include:

- \$1.1 million in cash and 3.86 million shares in three stages up to mine permitting and approval.
- \$5.5 million in cash or shares at BRI's sole discretion in two stages, upon startup of mine development and beginning of commercial production.

The deal is subject to usual closing conditions, delivery of an updated technical report by BRI, and approval from the Toronto Venture Exchange.

Cachoeira is located in the Gurupi Gold Belt of Para State, an emerging producer in northeastern Brazil. It lies about 85 km north of BRI's other large landholdings and comprises over 4700 ha in two mining licenses and three exploration licenses.

According to Luna Gold's Cachoeira 43-101 resource estimate report tabled in February 2011, the project hosts a 43-101 indicated mineral resource of 12.5 million tonnes at 1.11 g/t Au for 446,000 ounces of gold and an inferred resource of 5.4 million tonnes at 1.27 g/t Au for 221,300 ounces of gold.

Previous operators drilled 773 core, RC, and auger holes for a total of over 37,000 meters. The currently known resources are contained in three near-surface deposits with likely open-pit configurations, and there is substantial room for growth between them, along the structural corridor, and at depth.

According to the company, Brazil Resources’ in-country technical and management teams are standing by to begin expanding and developing the resource with additional definition and extension drilling, initial economic studies, and permitting and licensing.



Cachoeira Project, Para, Brazil

Here’s the chart for BRI since its IPO on May 15, 2011:



The company traded in a range from about \$1.05 to \$1.50 with strong support for over a year amid a low volume bear market; however, its chart began to break down in late May. BRI finally capitulated in mid-June, spiking as low as 61 cents but recovering quickly to the low to mid-90s.

Data provided by the company on its trading history indicates that since inception, the average sales price for 17.5 million shares is \$1.27. This trading built a very strong base that held up until the past month.

Brazil Resources' recent acquisition has not moved the market and it continues to trade sideways with the 30 day average trade at 93 cents on light volumes.

The Cachoeira project has federal highway access from the port cities of Belem at 250 km and Sao Luis at 285 km. Travel time from Belem is about three hours. Access within the property is good and consists of a network of secondary roads and trails. Mine development would be afforded access to the national electrical grid.

The property is a contiguous block comprising two mine licenses and three exploration licenses totaling over 4700 hectares. It has a long history of gold mining dating back to the 17th century; garimpeiros exploited the prospects in the early 1900s, 1940s, and 1980s. Several modern exploration programs also were conducted from the late 1940s to the present and culminated in the resource estimate referenced above. Garimpeiros continue to extract gold today at the Tucano deposit.

It is located in the Gurupi Greenstone Belt and consists of NW-trending upper greenschist facies metavolcanic and metasedimentary rocks in tectonic contact with amphibolite-grade gneisses intruded by granitoids. Gold deposits are hosted in wide shear and fault zones.

The Cachoeira project contains three deposits, Tucano, Coruja and Arara. Gold-bearing quartz veins and stockworks are hosted within a five km long, N-trending shear zone. Shallow drilling has intersected high-grade mineralized structures within wider zones of lower-grade gold. Good potential exists for continuation of mineralization at depth and between the three deposits within the structural corridor.

Now let's do what every good geologist does after work at his favorite watering hole and quickly figure out if this was a good deal for shareholders or not. Our tools are a beer bottle in one hand, a mechanical pencil in the other, and a napkin on the bar:

Cachoeira's current combined resource is 667,000 oz of gold. The company will pay the equivalent of \$6.6 million dollars and issue 3.86 million shares over the course of four years. Valuing those shares at BRI's current share price of 90 cents equals \$3.5 million; valuing them at the company's average historic trading price of \$1.27 equals \$4.9 million. Therefore, today's cost for this acquisition is between \$10.1 and \$11.5 million or \$15-17 per ounce of gold in-the-ground.

Folks, even in the current buyer's market, that's pretty damn cheap. The average market valuation of four peer Brazilian gold explorers is currently depressed at \$20 per ounce so this is still a bargain-basement deal.

Plus it's good for us as current shareholders with only 10% share dilution for the first couple of years and a cash or share payment option in the longer run. Luna Gold's CEO has commented that his company also stands to benefit as a shareholder because of BRI's focus on advancing Cachoeira to production.

I am quite pleased with Brazil Resources' new acquisition for these reasons:

- It is a key addition to the company's goal to become a mid-term gold producer.
- It has strong potential for increasing the ounces of contained gold.
- It was acquired at a reasonable cost with little shareholder dilution.

I look forward to exploration results and development progress at Cachoeira in the second half of 2012. Based on BRI's business plan, I expect other resource acquisitions to be forthcoming in the months ahead.

That said, the market has not reacted at all to its recent positive news, and I think that BRI may present a buying opportunity during this summer's doldrums.

Please realize that the opinions expressed herein are biased because I am a shareholder of Brazil Resources Inc, my cost basis is lower than its current trading range, and it pays to sponsor my website. It is always incumbent on you as a diligent and conscientious speculator to do thorough research before buying or selling any stock.

Ciao for now,

Mickey Fulp
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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 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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