



Mercenary Alert: Update on Brazil Resources Inc

A Special Alert Musing from Mickey the Mercenary Geologist

For Subscribers Only

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The junior resource market has been looking up for select companies ([Mercenary Musing, March 31, 2014](#)). Today I renew coverage on one of my favorite long-term holdings, Brazil Resources Inc (BRI.V). The company is an advanced gold explorer with the goal of becoming a developer and miner in the mid-term.

I first introduced BRI to subscribers not long after its IPO in the late spring of 2011 and followed with updates thru early 2013 ([Mercenary Alerts: June 15, 2011](#); [February 9, 2012](#); [July 16, 2012](#); [January 15, 2013](#)). I encourage you to take a look at these musings for background information and the history of the company.

Brazil Resources management and I agreed to suspend coverage early last summer because of the deepening bear market and expected lack of news flow during the summer and early fall. We agreed to resume when the market turned, and it has been doing that now.

Brazil Resources' stock performance resembled many junior explorers during 2013 with a high at \$1.36 in late January and a steadily declining price to a low of 42.5 cents in mid-December. However, with an improved market for the best resource companies, BRI had impressive volume and price gains in Q1 of 2014 reaching a 52 week high of \$1.44 in early March. It has come off since then and established a new base in the low 90 cent range.

Here is a chart since my last update on the company 16 months ago:



BRI has 72.4 million shares outstanding and 86.0 million fully diluted. Included are 11.7 million warrants at 75 cents expiring in December 2018 and listed with the ticker symbol BRI.WT. 1.9 million options are issued to management, directors, employees, and consultant with an average strike price of \$1.20.

Management owns 25% of the shares, various institutions total 30%, and 45% is in the public float. Cash position was \$4.0 million as of February 28, 2013. Current market capitalization is \$65-70 million.

Brazil Resources is led by COB Amir Adnani. I have known Amir for about four years and think highly of his entrepreneurial ability. Other management personnel include geologist and CEO Steve Swatton who previously headed BHP-Billiton's business development and exploration group, VP Administration Pat Obara, and VP Exploration Paulo Pereira. Directors include Brasilinvest principal Mario Garnero, David Kong, and former Canadian Minister of Natural Resources Herb Dhaliwal.

The company's strategic partner is private merchant bank Brasilinvest, founded by the aforementioned Garnero in 1975. This entity has attracted over \$16 billion of diverse investments to the country and currently manages over \$6 billion.

BRI's corporate philosophy is to acquire a portfolio of advanced gold exploration projects at attractive prices during the ongoing junior resource sector downturn. The focus is on low capex and high margin deposits that are not dependent on a high gold price to be economic. This strategy paid dividends over the past year with the acquisition of four resource properties at bargain basement prices.

Brazil Resources was very active in 2013:

- In March, the company updated its resource estimate at the Cocheira project in Para state with an indicated resource of 17.5 million tonnes at 1.40 g/t Au for 787,000 ounces and an inferred resource of 15.7 million tonnes at 1.12 g/t Au for 628,000 ounces.
- In July, initial drill results at the Artulandia project in Goias state returned significant polymetallic mineralization intercepts in a volcanogenic sulfide occurrence.

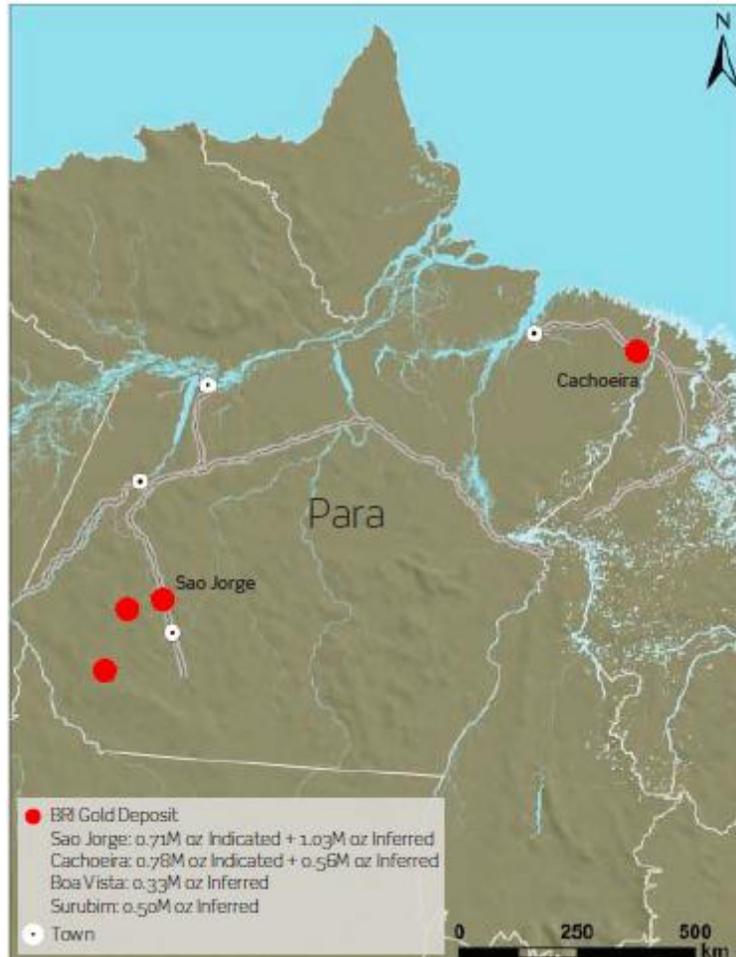
- In late September, it announced the acquisition of Brazilian Gold Corp, a junior explorer with more than 3750 sq km of land holdings concentrated in the Tapajos area of Para state that include a flagship project, Sao Jorge. The deal was an all-share transaction valued at \$13.5 million and was completed in late November.
- At year-end 2013, it completed an oversubscribed private placement for \$6.4 million at 55 cents. The unit has a full warrant at 75 cents with expiry in five years and is subject to an acceleration clause.

In January of this year, the company tabled 43-101 mineral resource estimates for three projects acquired in the Brazilian Gold transaction:

- Sao Jorge project hosts an indicated resource of 14.4 million tonnes grading 1.54 g/t Au for 715,000 oz gold and an inferred resource of 28.2 million tonnes grading 1.14 g/t Au for 1,035,000 oz gold at a cut-off grade of 0.3 g/t. The project is located 70 km south of the town of Nuevo Progreso via mostly paved roads with power and water on site.
- Boa Vista project hosts an inferred resource of 8.47 million tonnes grading 1.23 g/t Au at a 0.5 g/t cut-off for 336,000 oz gold. It is located 70 km south of Novo Progreso on a major highway and with access to electricity and water.
- Surubim project hosts an inferred mineral of 19.4 million tonnes grading 0.81 g/t Au at a 0.3 g/t cut-off grade for 503,000 oz gold.

In addition, Brazil Resources reports a mineral inventory at its flagship Cachoeira project that includes an indicated resource of 17.4 million tonnes at 1.40 g/t Au for 787,000 oz gold and an inferred resource of 15.6 million tonnes at 1.12 g/t gold for 563,000 oz gold. This project is especially attractive because of its location 220 km south of Belem adjacent to a highway and associated infrastructure. The company recently achieved a permitting milestone for this project by submitting an environmental impact assessment and application for a preliminary environmental license to the State of Para .

BRI's total gold resources in Para are 1.50 million oz gold indicated and 2.44 million oz inferred and are shown below:



Gold Projects and Resources in Para State

BRI controls five early stage exploration properties in areas of known mineralization: Montes Aureos (2000 ha) and Trintas (8900 ha) in Para; Artulandia (5000 ha) in Goias; Batistau (19,500 ha) in Mato Grosso; and Apa High (198,000 ha) in Paraguay.

In addition, the company holds a 75% interest in the Rea uranium project in the Alberta portion of the southwestern Athabasca Basin with joint venture partner Areva controlling 25%. The 218,000-ha property was acquired in the Brazilian Gold transaction and completely surrounds Areva's Maybelle River deposit. It covers extensions to the structure that hosts Maybelle River and several prospective parallel structures. BRI owns a large database from exploration work over the past 40 years that includes airborne and ground geophysics data, stream, lake, and soil geochemistry, and 31 historic drill holes. There are numerous undrilled targets.

Brazil Resources reached historic lows of less than 50 cents from mid-December to mid-January. This significant downturn appears to be a confluence of three factors that led to an extremely oversold market:

- Issuance of 17.3 million shares for the Brazilian Gold acquisition followed by a sell-off by some of that company's former shareholders.
- Year-end tax-loss selling.

- A private placement financing completed during the market low.

BRI began to move up on strong volumes on January 13 and this uptick continued for nearly two months. On January 21, the company's 43-101 qualified resources nearly tripled from 1.35 million to 3.94 million oz of gold.

Its price strength also coincided with the rise in gold from \$1248/oz in mid-January to a yearly high of \$1382 in mid-March. A stronger Toronto Venture Exchange Index was a contributing factor as market valuations of the best advanced gold explorers were up significantly in Q1; in my opinion, Brazil Resources certainly belongs in this elite group. It has since retreated to the 90-95 cent range with a lower gold price and profit-taking. BRI's end-of-year 55-cent private placement became free-trading on May 1, but it is apparent that participants have not sold to any large degree.

Brazil Resources was trading at \$1.20 when I first initiated coverage in Q2 2011 and despite going thru various ups and downs, it has maintained a very strong average share price during the three-year bear market for junior explorers.

In fact, BRI has shown remarkable resiliency since its 65-cent IPO in mid-May 2011 when the **bear** market for junior resource stocks was beginning. It opened at \$1.00 and since then over 68 million shares have traded hands at an average price of 97 cents per share.

BRI has two flagship gold projects in Sao Jorge and Cachoeira, two other gold resource properties, and five early-stage properties. It has a prospective uranium project surrounding a known deposit in the southwestern Athabasca Basin that could be spun-out into a separate entity or sold to Areva.

The company has strong management, a strategic alliance with a Brazilian investment fund, and a cadre of dedicated shareholders within a tightly-held share structure. It has significant cash in the bank for 2014 exploration. It remains on the acquisition hunt in Brazil.

For these reasons I opine that the upside potential for Brazil Resources is high. Please be aware that my opinions are colored as a pre-IPO shareholder of BRI at a much lower price than its current trading range and it is a paying sponsor of my website. That said, I still hold the vast majority of my original position in the company.

I encourage you to do your own due diligence to determine if Brazil Resources Inc matches your situation and criteria for speculation.

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 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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