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Busted Deals, Broken Markets, and the Biggest Guns

A Monday Morning Musing from Mickey, the Mercenary Geologist

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Busted Deals

I woke up early this morning, reflecting on 21 years of junior resource sector boom and bust. So I rolled out of the rack, brewed a cup of espresso grade, and walked over to my office. Now at 4:30 am, I've got two hours before market open to write of what sometimes goes right but often goes wrong in venture capital deals.

I wish I had a *Morgan silver dollar* for all the busted deals I've been involved in: Jobs offered that never came thru, options promised and never delivered, private placement money committed then evaporated upon a \$20 dip in the overnight price of gold, warrants never close to in-the-money, finder's fees conveniently forgotten, property payments in default, claim rentals unpaid by a junior on August 31 and said claims lost, invoices and interest billed for services in arrears for months or even years, handshake deals never consummated in writing, and bad debts finally settled for a stock cert in some shell company that reincarnated in the next bubble as a high tech bottom feeder that also was doomed to fail.

With all those *Morgan silver dollars* won, I could quit buying junk silver and use my stupendous stash of *plata* as barter for beans and *chile* and *tortillas* and beer when the really bad times come in our slowly rotting-from-its-northeastern-seaboard core American empire.

The list goes on and on. Even in the last five flush years for geologists, I must still collect money in advance of a job or risk having to hassle some junior company CEO for a past due invoice. I did that very thing again in January.

What is inherent in the cultural climate of our venture capital business that a deal is never a deal until the money is wired into my account? Why is it that Vancouver promoters, brokers, and money-men never say no or even maybe or maybe not?

They just say yes to this and yes to that, and yes to everything and everybody, and yes to yesterday and yes to tomorrow, but not quite *yes today*; then they turn off their cell phones and go on five weeks holiday in July, come back in mid August and say: "Oh it's the summer doldrums, market is down, not a good time, we're going to sit on the sidelines until markets improve, call us in a few weeks: "Blah, blah, blah ... yadda, yadda, freaking yadda ..."

That's when it finally dawns on me that they weren't really interested from the git-go. They were just giving me yes time because not a single one of these Vancouver yes men have the *cojones* to tell it like it really is.

How about just giving me a straight answer? Why must they resort to continual sleight of hand and bluff and bluster about money matters? This is not a card game. We're not "*goin' all in*" playing *Texas Hold-'em* or *Guts* here.

Is it that way in all businesses or just in our little corner of venture capital-dom? Is this a Canadian societal trait? I surely don't see this kind of miscreant behavior in most of my deals stateside.

I can't give you an answer because, as a Mercenary Geologist, I've been in the natural resource game since my first job as a roustabout in the oil fields at age 19. I know no other business other than looking for, finding, and digging "*stuff*" that's in the ground.

Broken Markets

Why the long-winded "**Busted Deal**" rant?

That's simple:

I am presently owed nearly six figures in unpaid invoices.

Folks, that one fact tells me that our little 4 ½ year-old microcap junior resource bubble has officially burst. This market is broken; it is the bear beginning.

Financial problems in the junior sector are escalating: An increasing number of companies have dying properties, no money in the till, little to no prospects of raising any money at any price, and are deeply indebted to their service companies and consultants, e.g., me.

Because monetary sources have dried up to a large extent, massive downsizing of the junior resource sector is imminent. I'm interested to see what the junior resource business will look like in 12 to 18 to 24 months. That's how long, at the bare minimum, this worldwide bear market will take to recover.

Although I wrote about the second coming of the Asian Flu three weeks ago, I should clarify my position and tell you that I am referring to the short to mid-term. A one to two year slow down in Asia is foreseeable and predictable and demand and prices for industrial metals and minerals will surely suffer.

However, unless the USA financial system totally collapses and takes the world into Doug Casey's decade-long "*Greater Depression*", Asian economies, driven by the teeming masses' demand to become upwardly mobile and acquire more and more "*stuff*", will grow significantly in the 2010's.

There are so *many* goddam people over there and they are making babies faster and faster in most of these countries. How long before the population of India exceeds China? Do the math.

It is my opinion that we are still in a secular bull run in commodities.

In the interim, near term producers of gold, silver, and energy, especially conventional gas and uranium, appear as shelters from the current storm. I bought more Pelangio (PLG.T) and Hathor (HAT.V) on

weakness in the past few weeks. I sold a couple of copper explorers. I'm watching some growing oil and gas producers as petroleum has its overdue correction.

The Biggest Guns

Meanwhile, if you run a small undervalued and underfunded junior with a comely asset, there is carnage, rape, and pillage of the weak and young and the ill and old coming soon to a theater near you.

Witness the big boys starting to court the foxiest girls at the dance. Two made their first moves in the past month: Kinross took over Aurelian's badly beaten up Fruta del Norte, and Goldcorp took over Gold Eagle's deposit and trend play at Red Lake. Those were welcome advances; other take-outs will not be so kind, so friendly, or so pretty.

For juniors, it's now survival of the fittest, win or lose, and eat or be eaten.

There are lots of good projects held by bad companies, run by major company ex-geologists who were working at Home Depot in 2003, and who now report to Peter Principled CEO's. These poor little boys and girls are looking for the Lone Ranger or a white knight. Soon they will be raising the white flags of surrender.

As the very first American Benjamin Franklin said: *"If you make yourself a sheep, the wolves will eat you."*

In other words, there are many undervalued juniors with significant portfolio assets and at some point of lowering valuations, they will be taken over, thru either friendly or hostile means, by the well-managed and well-funded bigger juniors and mid-tier wanna-be's. We are starting to see that happen in the gold sector and it is sure to come in the base metals sector. Call it M & A, or rationalization, or unitization, or what you will, but the net effect will be a whole lot fewer but a whole lot stronger companies in our sector.

This, I opine, is a very positive development and long overdue.

Today our goal as savvy stock investors should be to find the few, the select, and the proud Mercenary companies that we can hire to fight for wins in our investment portfolios. The company armory will be well stocked with cash and led by a general with the gray hairs to prove he's been there and done that, i.e., won significant battles under the most adverse market conditions. Look also for a shrewd technical Mercenary staff with proven geological and logistical skills. And make sure the company has well-developed supply lines to those that carry the biggest guns, i.e., reserves of wealth ready and waiting to deploy at the right time for the right acquisition.

Here's one of those I like and hold in my portfolio: Animas Resources (ANI.V). Animas is a young company of one year, has a very prospective property with a significant historic resource and multi-million ounce potential in northern Mexico, an experienced management and technical staff with big behind-the-scenes investors, a well-managed share structure with low market cap, millions in working cap and equal millions of in-the-money warrants, and is actively looking to grow the company thru a major acquisition.

In the immortal words of the Chamber Brothers, circa 1967: *"The Time has Come Today."*

I agree. Let's git it on!

Ciao for now,

Mickey Fulp

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P.S. Thanks goes to Jeff Stuart, my Mercenary editor and ex-infantry soldier, for help with the military metaphors employed in this Musing.

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