

Mirasol Resources (MRZ)

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Stock Price: \$1.04

Diluted Shares: 44.16MM (there's also 6MM options and warrants with strikes of \$2.97 - \$4.30)

Market Cap: \$46MM

Working Capital Surplus: \$22MM

CDE shares: \$14MM

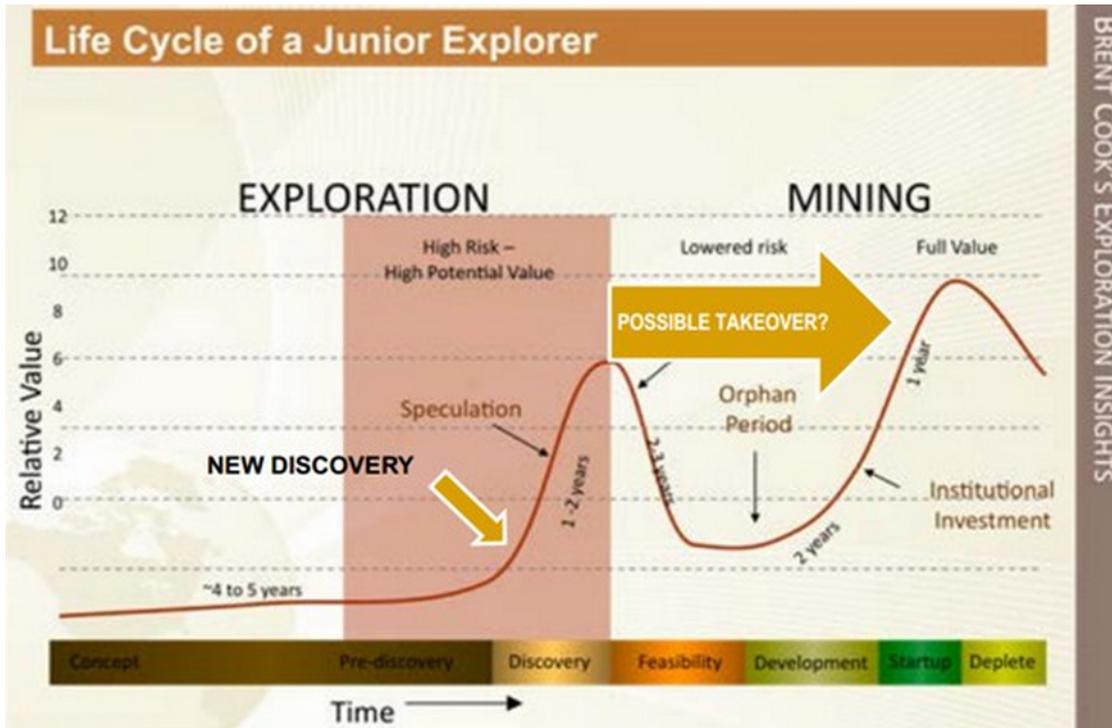
Debt: \$0

EV: \$8MM

I love finding situations where the outcomes are: Heads I win; tails I don't lose much. Hat tip: Pabrai.

I believe Mirasol Resources is one of those situations.

MRZ is a prospect generator, which means it recons new mining projects with its technical team, acquires the land rights, then goes out and JVs with a well-capitalized miner who pays MRZ for its work and commits to funding the further drilling and (if it gets there) development of the project. The prospect generator model is interesting because it requires very little capital compared to traditional mining companies (little cost = lower risk of dilution and high probability of avoiding the mining death spiral). You get exposure to early-stage value creation (see the shaded area in the image below) but with long term sustainability that a typical "all or nothing" explorer lacks.



The costs in the prospect generator business are primarily exploration, field and management salaries and logistics.

The key to investing in any prospect generator is finding a very savvy geotechnical team. Even better is finding a savvy team with a portfolio of high caliber projects already on the books and paying close to nothing for it (free call options).

Enter Mirasol.

Marisol focuses on finding high-grade, bulk tonnage gold prospects in Chile and Argentina. According to Brent Cook, MRZ has "the best technical team in their little piece of the world and a management focused on creating real shareholder value". That's a really important statement from one of the most well-respected geologists in the world. But where's the proof? For that, we'll have to go back to late 2012.

On 21-Dec-12, in the worst gold market in a generation, MRZ's team was able to accomplish what very few prospect generators are able to do: they sold their 49% stake in the Joaquin silver-gold project to Coeur Mining for \$30MM in cash and 1.3MM shares of CDE stock (\$60MM total consideration).

This transaction provides investors an opportunity to put a concrete value on MRZ without having to guess at the value of its 10 Chilean projects and dozens of Argentine projects (all but 1 are 100% owned). Here's the math:

MRZ has \$23MM in cash and receivables against \$1.1MM of current liabilities for a total value of ~\$22MM (as of 30-Sep-13); there's no debt

MRZ also holds 1,310,043 common shares of Coeur Mining (CDE), currently valued at \$14.1MM

Total current value of MRZ = \$36.1MM

I don't have a particularly strong view of the value of CDE, but we're at the lowest prices in the 10 year history of the stock (save for the financial crisis period), it's fair to say we're closer to the bottom of the cycle than the top, valuations have come down dramatically, and insiders at CDE have been buying. Taken together, the mosaic is there for wanting to own CDE (and for the value of the stock on MRZ's balance sheet to increase).

So you are paying \$8MM for a world-class management and geotechnical team, a couple dozen prospective projects in Latin America, and upside in CDE stock. I think that's a pretty darn good deal. One must note that the company is spending ~\$2MM / quarter in operating costs, a number that can be flexed down if needed (this is a low / no fixed cost business).

But who cares what I think? What do insiders at MRZ think?

Well last week the company's biggest shareholder just [bought another 2.4MM shares](#) (5.44% of the common stock). This isn't some guy who doesn't know what he's doing – this is John Tognetti, the Chairman of Haywood Securities. He now owns ~25% of the company. I would say that's quite a vote of confidence, no?

All in all, it makes for a pretty compelling investment case.

Sources:

Company presentation: <http://www.mirasolresources.com/i/pdf/2013-11-04-Precious-Summit-Zurich-Mirasol.pdf>

Financial statements: <http://www.mirasolresources.com/s/FinancialStatements.asp>

Article: <http://ceo.ca/mrz-john-tognetti-adds-2-4-million-shares-to-his-position-in-prospect-generator-mirasol-resources/>

CDE last Q [here](#).