

Calico Resources (CVE: CKB)

Date: January 24, 2014

Sometimes, free money can be found. Usually it comes with a caveat.

Calico Resources (CVE: CKB) is one of those opportunities. It trades on the Canadian Venture Exchange for less than \$0.23 (approximately \$11MM). In 1 month, they will be selling their primary asset for \$27.5MM. This information is publicly available (see [here](#) and the update [here](#)).

Once you factor in the issuance of dilutive shares ([64.15MM shares](#)), you get a value of **\$0.43 per share** (that is \$27.5MM / 64.15MM; note that I am assuming their historical operating losses shield them from paying taxes on this transaction). So if this deal closes, CKB will have cash worth nearly 2x its current market cap, plus retain a 1% royalty on the project if it gets developed.

From a risk-reward perspective, this is incredibly attractive: the market is offering you 2x upside versus perhaps ~50% downside. Further, once you factor in the probability of the deal closing (a scenario I view as "high probability" for the reasons cited below), you get an even better probability-adjusted risk-reward.

Here's why the deal appears likely to me:

1. It's supported in writing by the largest shareholder (who is a 20% owner):
<http://www.newswire.ca/en/story/1290281/status-update-on-the-proposed-sale-of-calico-s-wholly-owned-subsdidiary-including-its-grassy-mountain-gold-project>
2. The acquirers are not finance guys (which typically carries much more deal risk) but seasoned ex-Coeur Mining guys who are building their portfolio and have access to the capital markets:
<http://www.rockstarresources.net/Mining-Investments-Experience-Coeur-d-Alene-ID.html>
3. The acquirers have paid CKB \$350k, will pay another \$350k on 1-Feb-14 and will pay another \$350k if they delay the close – that's anywhere from 2.3% - 3.5% of the total deal value. That's a lot better than putting up \$0 (which would make me question if the acquirer was serious).

In the event the deal doesn't go through, the company has a small working capital surplus and no debt (so not going BK in the immediate future) - just take the balance sheet and add in \$350k from the deal

signing: <http://calicoresources.com/wp/wp-content/uploads/Sept30-2013FINAL.pdf>. The extra

\$350k subsequent payment due in about a week will give them enough capital to last a year.

The caveat comes in the form of a question: **What will CKB do with all that cash?**