



Animas Resources Ltd: Why I Like This Story

A Monday Morning Musing from Mickey the Mercenary Geologist

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There are three key criteria to evaluating a junior resource company for investment: **Share Structure, People, and Projects** ([A Primer for the Lay Investor, December 15, 2008](#)). From my Mercenary point of view, very few companies will ever make the grade. Perhaps one in twenty deserve more than the cursory one-to-fifteen minute look. Of that 5%, maybe one in five is currently undervalued. That means that at any given time, I choose one in a hundred.

So I'm a picky son-of-a-gun. But these are my hard earned dollars and I am not going to fritter them away without thorough due diligence on any possible investment. It was easier when the bulls were stampeding. Now that the big mama bear is always lurking around the next bend even during the short-lived sucker rallies, it's just plain hard to find a story that I like.

But here's one company that I was introduced to a few months before the company went public in July 2007 and liked immediately: [Animas Resources, Ltd \(ANI.V\)](#). Note that I was part of the pre-IPO financing, am a shareholder, a warrant holder, and I am biased. For those who read my previous articles on Animas Resources, one written over a year ago and before the world wide financial crisis kicked into gear, and a field evaluation written last fall ([Mercenary Musing, November 3, 2008](#)) some of this may be repetitive. But for my many new subscribers and website readers, I want to present the full background of the company along with my current thoughts on its development.

Why do I like this story?

Let me count the ways:

Share Structure: 27.4 million shares outstanding and 38.2 million fully diluted; closely held 33% (insiders, family, and friends), approximately 10% institutions, giving a public float of about 16 million shares. There are 6.2 million warrants out of the money that expire in June and July, 150,000 options in the money with expiry in 2011, and 2.5 million options out of the money with expiries in 2012-2013. In the current market, it is probable the warrants will not be exercised. In addition, there is a bonus pool of two million shares to be issued to management when certain 43-101 qualified resource milestones are reached.

Working capital stands at \$3.4 million and the G&A burn rate is about \$65,000 per month. Including completion of its 2009 exploration plan and drilling budget, Animas has sufficient cash until the end of Q1 2010. Management likely will go back to the market for equity financing late this year or in early 2010 unless a particularly good opportunity presents itself in the interim.

The company's goal is to expand near surface and deep resources at its flagship Santa Gertrudis project to economic decision points that will increase shareholder value.

Folks, that's a well-managed company.

People: The company officers, directors, technical advisory board, and consultants include a veritable "Who's Who" of the American mining scene including senior geologists, exploration managers, mining and process engineers, and executives. These men include the former: Vice President of Exploration-Latin America for Phelps Dodge; Vice-President of Exploration for Echo Bay Mines; Exploration Manager, various Latin American countries for Cyprus Amax; Associate Professor of Mining Engineering, Colorado School of Mines; Chief Geologist of Newmont; Chief Geochemist of BHP-Billiton; one of the world's best mapping geologists and his brother, an expert mining geophysicist; President of Cominco; Vice President of Business Development for Cominco; co-author of the 1992 Mexican mining law; Chief Metallurgist of Phelps Dodge; and Vice President of Business Development for Phelps Dodge.

This is what really makes me know the management is committed to the company and its shareholders: None of the company insiders have sold a share or exercised an option since the company's IPO. There were many opportunities for management to take profits or exercise options as the stock traded as high as \$2.14 and no one chose to do that.

Now *this* is a management and technical team I can get behind.

Project: Over the course of two years, Animas Resources has consolidated the entire Santa Teresa district, northern Sonora, Mexico and its current landholdings are 447 sq km. There are numerous Carlin-type, sediment hosted gold deposits that were mined in the 1990's by Phelps Dodge, Campbell Resources, and Roca Roja with total production of about 650,000 oz gold. All the mines were shut down by 2000 because of the low gold price. Historic resources for the Santa Gertrudis project are inventoried at 16.4 mm tonnes grading 1.36 g/t Au for a total of 718,000 oz gold.

The Santa Gertrudis district is located in the Basin and Range province of northern Mexico. Carlin-type disseminated, stockworks, and structural gold deposits are hosted by a Cretaceous sedimentary sequence of silty carbonates and sulfidic, calcareous black shales in a northwest-trending fold belt with most known deposits located on the southern limb. Structural controls are very important with intersections of northwest and northeast high angle faults localizing ore bodies. Circular magnetic highs with peripheral deposits on the edges indicate likely buried intrusive sources for alteration and mineralization. Shallow pediment gravel cover on the west and southwest borders historically mined deposits.

Animas has voluminous mapping, geochemical, geophysical and drill data on the many small deposits that were prospected, explored, and mined since Phelps Dodge discovered ore in the district in 1986. Larger, higher grade, and deeper Carlin-type targets are ready to drill.

The Santa Gertrudis district reminds me of the Carlin trend in 1986. All the producing mines were relatively low-grade oxide open-pits. Then forward-thinkers started deep drilling for sulfides and we all know what happened: 135 million ounces of production and reserves.

Now 20+ years later, the geological setting at Santa Gertrudis suggests potential for deeper, sulfide mineralization zones that could become much larger and much higher grade ore deposits.

Only more boot leather, rock pounding, drilling, and of course time and money will tell if Animas is successful in finding big Carlin-type deposits.

But the district has the requisite geology, alteration, geochemistry, and geophysics to accomplish this goal.

Initial drilling of 25 holes has been quite encouraging. Although gold intercepts generally were not spectacular, they were encouraging (e.g., 26.6 m of 1.41 g/t Au; 8.5 m of 2.81 g/t Au), widespread gold was encountered over thick intervals, and the size and intensity of altered zones in four project areas was impressive.

In addition, Animas management recently has embarked on an alternative plan, sort of an insurance policy, if you will. When I visited the project last October, I was struck by the number of small deposits and mined pits, 22 in all, in the district. Certainly not all of these will have big target potential. I encouraged the company's management to entertain joint venturing smaller deposits that do not meet their core asset criteria to experienced small mine contractors in Mexico.

In point of fact, I introduced them to one such group which has been generating positive cash flow from two small gold mines in northern Sonora for several years. At some time in the not-too-distant future, I expect that gold production may come out of the Santa Gertrudis district and produce cash flow for both ANI and its JV partner.

To parrot my many Canadian friends: "There's lots of blue sky, eh?"

Catalysts:

Animas is planning a Phase II drill program now. The 2008 drilling prioritized areas for follow-up and mapping, rock sampling, and geophysical work has defined new targets in both areas of outcrop and under gravel cover. I expect drills to start turning by early summer.

However, the most exciting news is pending 43-101 resource estimates. Animas has retained one of the most conservative and meticulous and therefore the best engineering firms in the US of A, Mine Development Associates of Reno, Nevada to do the calculations. And the guy doing it is none other than my long-time friend, Steve Ristorcelli.

I have known Steve for over 30 years. We were in graduate school together at the University of New Mexico in the late '70's. He is the best geological resource engineer that I know.

Steve is impressed with the data quality, its continuity, and how well it has fit into his constructed geological model. Expect the resource estimates to come out piecemeal, deposit by deposit, with some of the larger, more attractive gold deposits (e.g., Cristina) defined first.

I expect the total number of 43-101 qualified ounces to meet or exceed historic resources for many of the deposits.

And I think the market will react most positively to the good news.

Summary: I like the Animas Resources Ltd story for many reasons:

- The company has low number of shares, a tightly held structure, sufficient working capital until early 2010, and insiders are committed to its success.
- Management is experienced, technically unsurpassed, and has its sole interest aligned with shareholders.
- The flagship property constitutes an entire district with significant past production and remaining historic resources in small Carlin-type deposits. Geology, alteration, geochemistry, and geophysics indicate larger, high grade, deeper ore deposits may exist in the district.
- ANI may joint venture smaller deposits to contract miners to generate near term cash flow for the company. Major and mid-tier gold miners and royalty companies have recently expressed interest in the project and may present opportunities for strategic investment or partnership in the future.
- Near-term catalysts for a better share price include startup of a Phase II drill program and publication of 43-101 qualified resource estimates.

As you know, junior resource exploration and development companies always carry a high degree of speculative risk, especially in these volatile times. You need some luck, but it's easier to get lucky with a strong technical team that understands the work and time commitment and has the financial wherewithal to facilitate discovery. ANI's management and field teams are top notch and committed to the task at hand and if there is a big deposit here, I'm confident they can find it.

Folks, I'll never bet all the cows on my farm on any one company. But I am betting on Animas. You must do your own due diligence and make your own decision on Animas Resources Ltd.

I have done that and I am committed as a shareholder.

Ciao for now,

Mickey Fulp
Mercenary Geologist



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 30 years experience as an exploration geologist 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 has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 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 throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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