

Fundamental Analysis of Mining Stocks

This week the NOBS report is on Bellhaven Copper & Gold (BHV.v).



NOBS bespoke report dated April 4th 2010

Bellhaven Copper & Gold Inc. (BHV.v)

Company and Structure

Bellhaven Copper & Gold Inc. (Canada BHV.v, US pink sheets BHVCF.pk Frankfurt 4BL.f) is a junior exploration mining company operating in Panama and Colombia. Up until very recently, its flagship project was the Cerro Quema gold property in Panama which has now been optioned out to Pershimco of Canada (*BHV keeps a 15% stake*). It also has several early-stage exploration projects in Panama and Colombia. Current share structure is as follows:

Shares out: 65,967,515
Options: 1,606,500
Warrants: 22,865,317
Fully diluted shares: 90,439,332
Current share price: \$0.215
Market Cap: \$14.18m
Approx cash per share: 1c

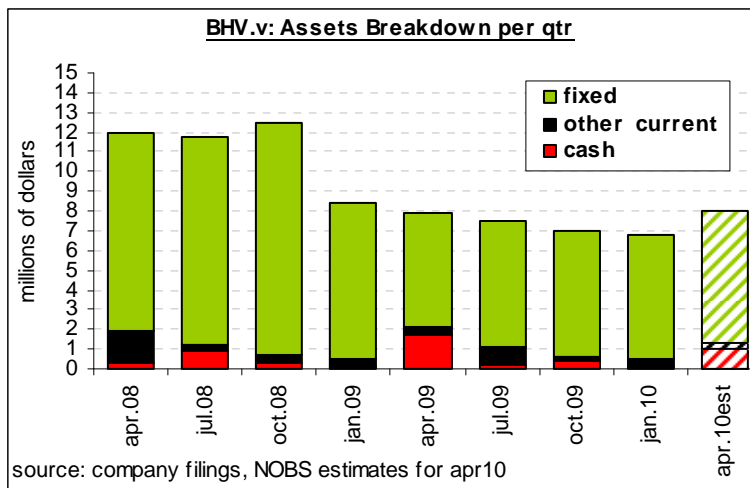
All prices are in Canadian dollars unless stated. Forex US\$1 = C\$1.05

Note: The share structure as presented above is accurate to the best of our knowledge as at this date. It improves upon the quickly noted "*about 80m shares and about \$20m mkt cap*" in the note on BHV in the 'Market Watching' section of IKN47, published last week. However it is slightly different from the share structure presented in the BHV January 2010 earnings report recently published.

Financials check and discussion of recent events at BHV

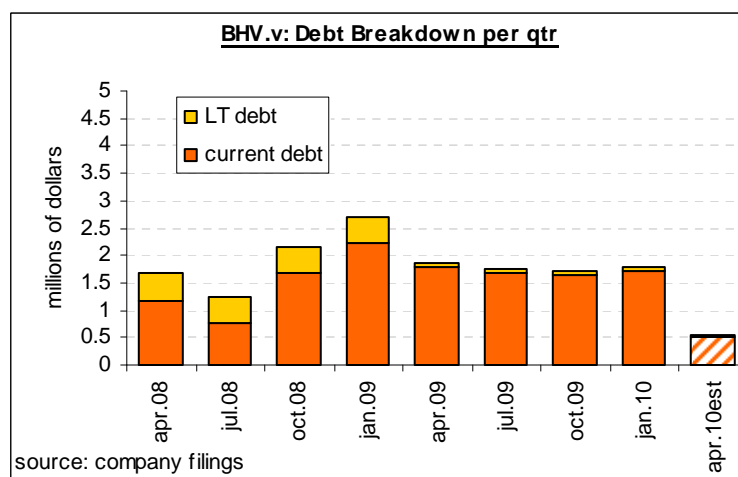
Let's run some of our usual charts to illustrate how the company has got to its present state, starting with the assets chart:

The assets charts speaks of a company that has done basically nothing in recent years. Apart from one occasion in January 2009 when it wrote down a significant amount of assets, the pattern of "*raise a little cash, spend a little cash, raise a little more cash*" and do little to actually move forward on any of its projects is writ large in this chart and the SEDAR filing notes that accompany the data from which it was generated (*umpteenth time reminder; please get into the habit of reading the filings yourself*).



The debt position at BHV is worth noting, as it gives us a way-in to explaining wider debt-related events such as the recent changes to the Cerro Quema deal with B2Gold (BTO.to) (and others).

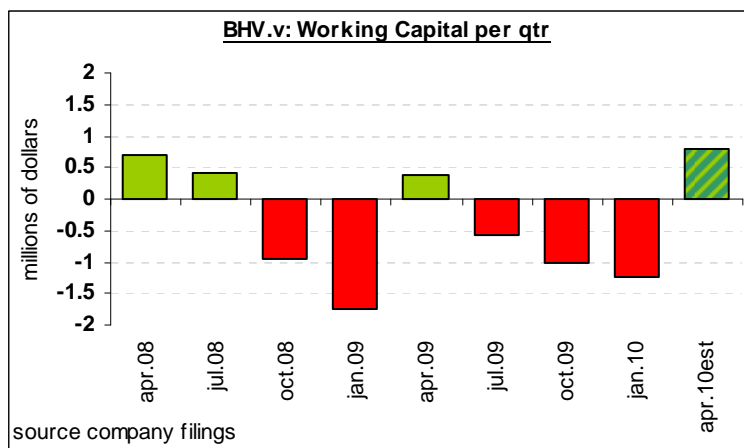
In the chart below we see both short term debt rising in 2008, as BHV added a \$1.044m convertible debenture to its liabilities (*what looks like a simple raising of a little working cap*). Meanwhile, another obligation held by the company that doesn't appear as a direct liability (and therefore isn't included in the chart numbers) is a payment due to B2Gold (BTO.to) for 60% of its (*up until then at least*) flagship Cerro Quema gold project. As the deadline approached for this payment last year BHV found itself with no cash and no way to pay off its obligation, so instead of defaulting and losing its share of Cerro Quema it renegotiated the payment deal with BTO and then optioned out Cerro Quema to a third party, the small Quebec junior Pershimco (PRO.v). The deal stipulates that PRO raises enough capital to pay off obligations due by holders of the Cerro Quema concession (*that includes money owed to BTO by BHV and other monies owed to two third parties*) in exchange for the option deal, then PRO also has to find over \$12m in capital to move the project forward. We don't know whether PRO will honour its end of the deal yet but all payments do come in stages that seem manageable for PRO and there's every reason to expect that it does what it said it would do.



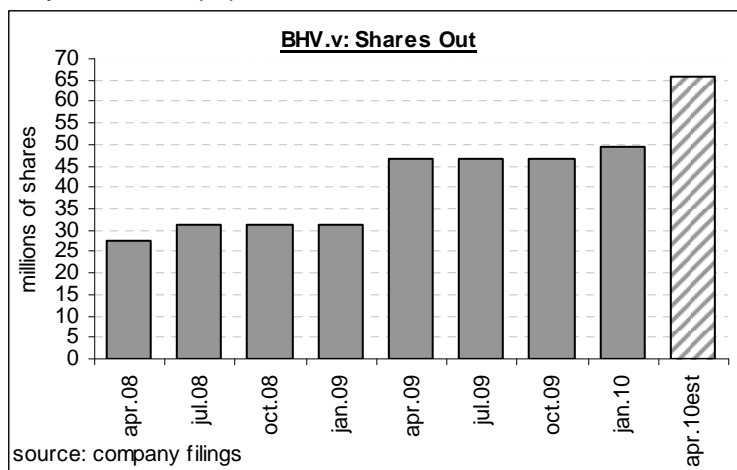
Put simply, BTO was in pretty dire straits just a couple of months ago and in lieu of losing its holding in Cerro Quema completely, decided to use the asset capital locked up in the property to pay off its debt (*assuming PRO comes good and pays its optioning stages on time*). The deal means that PRO will buy in further to Cerro Quema and if all goes to plan (*and what could possibly go wrong?* ☺) BHV will be left with a 15% holding of the mine (*PRO can claim up to 855 of the mine in stages*) and a free ride to production.

Back to the debt chart above: At virtually the same time (*in March '10*) BHV also renegotiated with the holders of the convertible debenture (i.e. loan) who agreed to accept shares for the debt at 15c. Therefore please note that in our chart above, we assume that debt will be at a more modest level of \$0.5m at end April 2010 (*the year end at BHV*) thanks to this settlement.

Working capital looks like this (chart below). BHV recently ran a financing (1) that brought in \$1.34m and, assuming the debt package is sorted out with PRO etc. this is the other side of the company financials-cleaning exercise that BHV is going through at the moment.

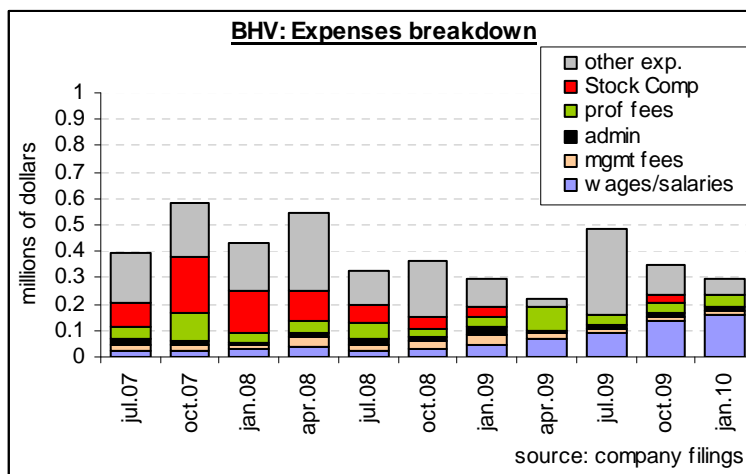


When the dust settles on these new moves, what we're presumably left with (*once again, we emphasize that we assume all deals are closed as expected*) is a company that isn't fracturing financial losses any longer, holds a much more manageable debt position and does have money with which to move forward and actually do something pro-active with its assets. On the other hand, the recent financing moves along with the agreement with debenture holders to swap their \$1m note for shares at 15c mean that the shares outstanding at BHV have moved up in a single quarter by some 15m papers.



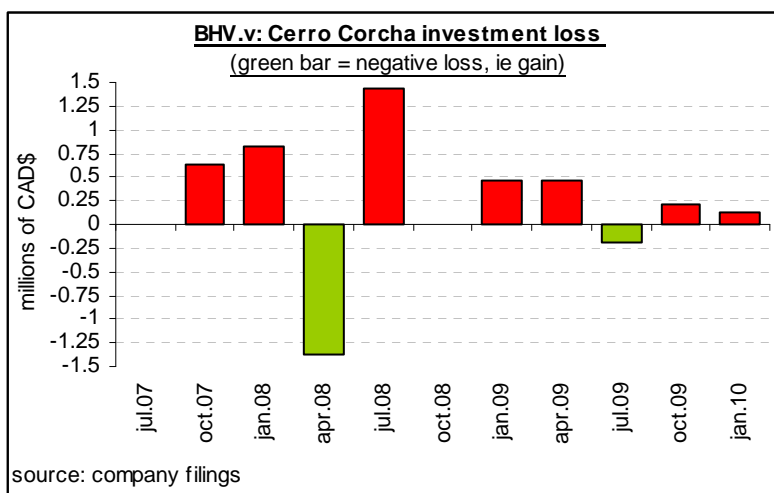
With the fully diluted total standing at over 90m the act of cleaning up the books has had its flipside, too. We'll come back to the participants of the latest financing round and an overview of current shareholders in a moment, but first, by way of a chart or two, I want to examine whether the people running BHV up to now show any evidence of crookedness.

I will admit here that it's difficult to sum up a longish piece of research and numbercrunching in just two charts and a couple of hundred words. The idea behind this section is to be representative and not comprehensive, with the two charts showing what I believe (*after poring over the numbers for longer than is healthy for a growing lad*) to be a fair microcosm of things up to now.



Firstly, I've chosen to highlight the expenses at BHV (chart right), but broken down into a little more detail than is normal. The categories chosen are those of wages/ and salaries, management fees, administration, professional fees, stock based compensation and a general catch-all "other" to clean up the rest. The five named categories (excluding "other") were chosen because they are typically the prime candidates used to hide irregular cash movements, but as the chart below shows, there really isn't anything strange going on in any of them. Overall the cash burned in each of these departments has been small. Recent wage and salary increases are explained by the renewal of company activities in Colombia. Professional fees are small with only one small anomaly in April 2009 (the year-end quarter when bills are often settled). Managerial fees are tiny, as are admin costs. Stock-based compensation saw some relatively chunky months in early 2008, but once the financial thumbscrews were on in late 2008 onwards those in charge simply stopped giving themselves that perk.

The whole set-up looks like a company that's trying to get by and is being run as parsimoniously as possible. Or put another way, this expenses breakdown above is not one of a company that's being drained by a bunch of scammy, self-serving managers.



On the other hand, this next chart does look as if they've been trying to hide their incompetence. What we have here (right) are the investment losses per quarter charged against the company for its optioning out and eventual sale of the Cerro Chorchá property in western Panama.

In a nutshell, what happened here was that BHV optioned out 75% of its then-owned Cerro Chorchá copper asset to an OTC company named Dominion (DMNM.pk) in a cash-and-shares deal. The problem with the deal was that the shares in DMNM were artificially pumped to \$1 before the deal was struck, so the 2.666m shares of DMNM that were given to BHV as part of the deal were never worth the pretend value of U\$1 that BHV told its shareholders. So in the

October '07 quarter and Jan'08 quarter BHV marked down the shares as seen, taking a \$641k and \$822k loss on the position respectively.

But then suddenly, come the year-end report they get told by their auditors, the spotless and world-class Price Waterhouse Coopers (PwC), that they can't do this and have to carry the Dominion shares at the purchase value. Thus you see that enormous green bar in the April '08 column. But the weirdest thing is that once the YE financials were done, BHV then decided to ignore the previous insistence of PwC and go back to the write-down method of carrying the DMNM stock, thus creating a \$1.47m investment loss in the next quarter. The reason for all this, so I'm led to believe by management there at BHV at the time, is that they considered the deal with Dominion was for XXX dollars worth of stock and so by marking down the value to current market prices they could go back to DMNM and get more shares from them. This is weirdness in quarterly filings but not the stuff that crimes are made of. However it is a window into the incompetence of management at that time. These guys did a deal with DMNM, then tried to say "yeah, but you're stock is worth less now so we want more stock to make up the difference". I can imagine the guffaws from the other side when they got that phone call.

Away from the silly filings and back to reality: Part of the current 6m DMNM shares held by BHV are the 2m shares it received, along with \$1.5m cash, when selling Cerro Chorchá outright to DMNM in 2009. The cash came in handy for a while but soon frittered away on day-to-day running costs and a half-baked attempt to get one of its Colombian assets moving into small-time production.

The bottom line is that in the opinion of this author, management has not been using BHV as their own personal cash cow at the expense of shareholders and backers. Running costs are kept tight and there's no sign of undue leakage in any of the line items looked at over a three year period (*your author went deeper than just the expenses items, but stuck with that chart as a decent example*). Basically, BHV management is not dishonest and this is good. In the meantime, they weren't averse to using statement-messaging tricks to cover up a bad deal done with a then-overpriced US bulletin board junior. This is not good.

The overall impression given by the books is one of "these people have no idea what they're doing". They're not crooks, but on the other hand the team that has been in place up to now aren't mining executives either and have little clue about running an exploration miner, let alone pretending to move up assets into production, something that requires true mine execution knowhow and isn't something for the "well, it can't be that difficult so let's give it a try" brigade.

That was then, this is now

After spending four pages trashing this company, its incompetent managers and its up-to-recently horrid looking financials, you might be wondering why your author is spending so much time on BHV and dedicating a NOBS report on this sub-\$15m market cap company.

The answer to that starts right here, in this excerpt from the recent news release (1)

"Resource Venture Partners, LP ("RVP") is pleased to become a shareholder of Bellhaven Copper & Gold. RVP is working with Bellhaven to undertake the necessary actions to transform the Company into a highly successful venture. These actions include: (1) delivering an attractive flagship exploration project, (2) attracting first-rate and highly motivated people into both the exploration and senior management ranks, and (3) disseminating company information and updates in a persistent manner to the investment community. It is anticipated that the flagship project will be delivered either through new exploration on recently acquired gold properties in Colombia, renewed exploration on more mature gold properties in Panama, or through future acquisitions/joint ventures. RVP is currently drawing upon its extensive network of contacts on behalf of Bellhaven to attract talented individuals into the Company. Finally, RVP is advising Bellhaven on a new investor-relations strategy so that the capital markets can more readily understand the Company's investment merits. RVP believes that these efforts will lead to the creation of real wealth which, if executed successfully, should accrue to the benefit of Bellhaven's shareholders."

As mentioned in IKN47 RVP is run by Paul Zweng, CEO of the successful and now sold junior QGX, founder of Antares Minerals and now head of a closed-end fund in Resource Venture Partners that has (*apparently*) quadrupled in value since inception on May 1st 2009 on the back of a nicely timed entry into the market and some very astute stockpicking based on some sound geological sleuthing (*if you meet him, ask him how he got to buy Clifton Star so cheaply and you'll see what I mean*).

Meeting last week

So here's the dope, folks: My trip to Lima last week consisted of three meetings, all of which were very interesting and fruitful. They included a lunch with Zweng that ended up as a six hour session in a swanky Chinese restaurant in the middle of a posh neighbourhood of the city (*and I nearly missed my plane home*). I got to listen and to grill (*the very likeable, friendly and knowledgeable*) Zweng on all things Bellhaven and to listen to why he'd moved into what looked/looks like a company going nowhere. Yes indeed, it turns out there's more to this company than a thin-bank position, a bunch of crappy quarterlies and a managerial team that seemingly has little clue about how to run a mining company, be it exploration or production.

To make out the case, here are a list of potential positives offered by the "new" Bellhaven. We then follow with a list of potential negatives to watch out for. We then wrap it all up in the conclusion passage.

Postives to expect

Zweng is by background a geologist first (*of the economic variety, it should be pointed out clearly*), so the initial attraction to BHV for him was the potential offered by its assets (*and one potential asset*). According to him, once he'd some some initial investigation into the company it was clear that some of the company assets showed good potential as exploration targets. His deeper DD, including site visits and all things related, confirmed this and he concluded that some projects had been underexplored, some had been very underexplored and some had been badly explored.

One of the conditions firmly set by Zweng before he moved to fund and take control of roughly 10% of shares out (via his RVP fund) was that things have to change at the top. Apparently the news on this score is good. The present management team, led up by Julio Bendetti, recognises that the company needs to do more to realize its potential and is, according to Zweng (*who isn't a BSser and wouldn't say things he wasn't sure about*) 100% willing to make the necessary changes at the top to get the company moving forward. These changes include for example, bringing in new blood into the company (*especially an expert geology team*), reassessing currently held assets and doing deals to secure new properties. The bottom line to this part is that Zweng&Co isn't just moving into BHV as a passive observer. All parties concerned are keen to change the company and those at the helm right now are willing to step aside, if necessary, to get the company leaner and meaner.

We've seen this process starting already, with the cleaning up of the previously hairy and weak balance sheet. All things remaining equal, BHV will be working cap positive for the first time in a long time once all deals are fully closed and can start doing things with its assets. So there is evidence to back up this "changing BHV" assertion.

Now a quick look at the company's Panama assets: Unless Pershimco (PRO.v) doesn't complete its end of the bargain related to the optioning in process at Cerro Quema, PRO will become the majority owner and operator of that concession. We therefore assume in this article that the deal goes through as planned and BHV loses (bar its 15% or 25% carry). But other assets have caught the attention.

One specifically mentioned to me that looks worthy of better exploration is the Bejucosa target, one of three targets that make up the Azuero property package close to (*and part of the same geological structure as*) the Cerro Quema property (*relevant web page here* (2))



Reportedly, movement is already happening on the Bejucosa target. Previous results from the site seem to be based on shaky geological premises, so what's happening right now is that new trenches are being dug, new mapping is being done and IP resistivity maps will be used in conjunction with the new data from trenching and mapping to attempt to locate suitable targets for a short drilling program.

There is, of course, no guarantee that a decent drill target will result from this new activity. However if something does pop up that catches the eyes of the new rockbangers on the team, an exploratory drill program (*that shouldn't break the bank, with unofficial price tags of \$200,000 being mooted that can't be taken as gospel but shouldn't be that far out*) would move ahead as soon as possible. The point here is that for too long BHV has been an exploration mining junior with no geology brains on board that have dedicated their time to the company. This has now changed and what the potential investor is betting on is the rock-savvy of Zweng and the team he is putting in place. That also goes for the Colombia asset potential.

Colombia assets

Real geological brains being applied for the first time here, too. In Zweng's opinion, the small mining operation planned for the Santa Maria property is a waste of time and should be scrapped (*we note in passing that up until recently, this project was the company's priority*). Instead, Zweng believes that there is potential in the rocks hosted in the San Lucas trend properties in Antioquia, Colombia. Once again, this is one area where the potential investor is in the hands of the expert geologist that sees first-hand, says "*I like the potential of this*" and has to be trusted by third-party potential investors such as you and I, no matter whether they are also pro-geols, laypersons on the subject or utterly ignorant in the way of the rock (*personally, I fall somewhere between the second and the third category*).

Back to Colombia, and Zweng also told me that BHV is now looking to secure a property in the country that shows reasonable potential. No extra details on that until any deal is done, which is the way it must be.

Negatives to look out for

Above we've outlined the plan envisaged by Zweng for The New BHV, but this ShinyHappyPeopleHoldingHands future must be examined for potential red flags, too. Here are the three most relevant in this author's opinion:

1) The present management may not live up to their word of happily stepping aside and making way for new blood. For sure we have their word and the sounds being made are all good. But in these things, seeing is believing. Zweng tells me that his plans have the support not only of the current management team at BHV but also the company's major shareholder (a fund) which is all good. But the moment of truth is when these people have to sign papers that mean they lose power, influence or even perhaps their seats on the board of directors. Stranger things have happened than a last-minute renegeing on this type of deal, even if at the moment all

parties apparently display the best will in the world. Yes, your author is cynical. I'm cynical because I live in Latin America and I cover mining stocks, two very good reasons to be cynical.

2) Colombia political risk. Subscribers (*and visitors to the blog as well*) should realize by now that your author is leery on mining exposure to Colombia due to the industry-wide underestimation of political risk there. I'm not going to cover the same ground as in previous editions here, but will mention at this point that not only are the BHV projects in Colombia exposed to this risk, but the risk is even higher than the relatively (*repeat relatively*) safer California Vetac camp where companies such as Ventana (VEN.to) and Greystar (GSL.to) etc operate. The San Lucas Trend concessions controlled by BHV (*and also the potential property the company is looking to secure*) are in the middle of the ELF insurgent hotzone and not the kind of region where it's wise to go out for a nice mid-afternoon stroll. This is not the place for greenhorns, which is an advantage for a company like BHV that has plenty of experience and backgound in the ways of Colombia. But that doesn't hide the fact that this is currently a dangerous part of the world. Speaking personally (*and I know there are many different views on this subject*) I would have difficulty in recommending BHV as a buy on the strength of a property's potential in the area at the moment. That may change in years down the line, but for the moment this is not the region where I'd want to put my investment money.

3) Normal exploration risks: It might go without saying, but even a "reborn" BHV that has its prospective looking property package re-examined and better explored is prone to the vagaries of exploration. The prospective investor must be clear that exploration companies offer tremendous upside, but that only happens when they hit something economically worthy. Despite all the hype you may hear from every company IR department that really doesn't happen very often in the world of mining.

Conclusion

Bellhaven Copper & Gold Inc. (BHV.v) is an interesting case study at this point in its life. For the first time in a long time the company has geological brains at work on its properties. This sounds so basic that it's almost laughbale, but it does provide a vision as to the big changes going on at the company. So having been run badly it has found a potential new lease of life via the interest and cold, hard cash placed in the company by Zweng and his RVP fund.

As an investment proposition, it is ultimately a "story stock" and it's a case of whether you buy the story being sold or not. There is little doubt in my mind that BHV has never been a scam stock. Evidence shows that the previous executive in "The Old BHV" (ie up to end 2009) was doing its best and trying to run the company on a shoestring, hardly the scenario where managers are creaming off large sums for themselves. The incompetence of the previous team is also writ large, but in the end it's far easier to turn around well-meaning but inadequate managers than managers with criminal intent. BHV is certainly saveable.

The story being sold now is also one coming from an respected geologist and 100% honest industry player in Paul Zweng, a man that comes with a track record of success (*see QGX, ANM and the performance of his RVP fund for evidence on that score*). When push comes to shove, what an investor in BHV is doing is betting the jockey here. Of course the potential investor is looking at Zweng&Team to turn the company around structurally, but even more basic is the bet that Zweng has seen something in the rocks held at BHV assets that has made him sit up, take notice, buy 10% of the company and want control. That's the bottom line. At today's market cap of less than \$15m, BHV is cheap enough to buy as a risk proposition. It doesn't have much cash at bank but on the other hand, one decent drillcore and the company will be able to finance at higher levels than today without much imagination needed. Just do the simple math yourself and you'll see that if BHV finds 1m oz of economic gold somewhere it'd be priced at \$15/oz, so if drilling finds fortune there's no doubt the price has room to run. Note the word "if". We repeat, "if". Understand "if"?

NOBS rates Bellhaven Copper & Gold (BHV.v) as one of its 'wait and see' prospects and will not be adding the company to its Stocks to Follow list for the time being. Those of you who've been round here for a while know that we have used this call on several other occasions, with examples such as Emerick (ERC.v), Malbex (MBG.v) and Focus Ventures (FCV.v) coming to mind. The details of the recommendation are, in broadstroke lines, the same

in this case as they were in those cases. There is clearly potential, there's a lot to like about BHV if things go right and the stock is looking quite cheap now, but the risk is high and this author needs more empirical evidence of prospectiveness at BHV before being able to recommend the stock.

With that said, once again NOBS points out as in those previous occasions (ERC, MBG, FCV) that those of you with a higher tolerance for risk may like to consider BHV as a speculative play at this point. It's also worth adding that BHV has apparently caught the attention of one or two names in the higher-traffic mining newsletter world and (*ahem*) it wouldn't be an utter surprise to see the company's name being bandied about in the public sphere by names that have a far greater numerical following than *The IKN Weekly* in the days and weeks to come (*and if that happens, you can be sure that the past history of the company or the potential pitfalls are not looked at in as much detail as above* ☺) But be clear, your author is a cautious fellow by nature and will not be taking a position in BHV for the time being.



Bellhaven (BHV.v) three year price chart

End of Report