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ADRIAN DAY'S GLOBAL ANALYST

THE NEXT VIRGINIA?

The next Virginia? That's quite a claim. Notwithstanding the long odds against success in exploration, we are confident saying that Midland has the ingredients necessary for eventual success and to justify that extravagant claim.

Midland is an exploration company, following the prospector generator model pioneered and made successful by Virginia. In this business model, explorers typically do initial work spending modest amounts of their money before finding joint venture partners who earn into the project by spending the money. They give away most of the upside in any specific project, but by maintaining their cash balances, they live to fight another day, building a portfolio of minority interests in multiple properties, which greatly enhances the odds of eventual success.

Numerous properties in mine-friendly Quebec

Like Virginia, Midland focuses on the province of Quebec, one of the most mining-friendly jurisdictions in the world. It has numerous projects (as many as 50 separate properties), in diverse resources, mostly gold, uranium, zinc, copper and molybdenum.

It is building a portfolio of active projects under joint venture, with strong partners, including Agnico Eagle, Quest Uranium, and Soquem. Prime among its projects are a gold project in an underexplored part of the prolific Abitibi belt; grass-roots gold projects, strategically located in the exciting James Bay region (the site of Virginia's Eleonore discovery, and where that company is now focusing its attention); and uranium exploration, also in the James Bay area, with well-funded junior Quest. It is also seeking partners for moly and base metals projects.

Gold and uranium properties show promise

On all the properties currently being worked, Midland and its partners have seen very favorable results, though some are still early stage. Agnico is planning a new drill program on the Maritime Cadillac property (Abitibi) while the James Bay exploration has found several new gold outcrops giving it several strong targets for further exploration.

Over time, we expect development of these properties, as well as new joint ventures to be formed. The company is still generating prospects, though this is not the easiest market in which to get funding partners, particularly in the base metals. But it is building a strong and deep portfolio which will give it opportunities for years to come.

Strong management and lots of cash

Midland also has the other key ingredients necessary for increasing the odds of success: people and money. The company is headed by Gino Roger, ex-Noranda, a strong explorationist and good negotiator, backed by a team of experienced and successful field geologists.

The company is also well financed, with cash well over C$3 million, not much less than it had when it went public 18 months ago. With its minimal burn rate, currently around C$300,000 a year, this is sufficient for years to come, and the company has no *need* to raise more cash. (If it does, it would likely be an accretive acquisition or similar.)

Be a patient buyer

With a market cap just over C$6 million (minimal 10% dilution from options), Midland is small and a very thin trader; indeed, many days, there is not a single share traded. (Shares have traded just two days this month, the last time, on Thursday less than $1,000 worth!) Indeed, I've hesitated to recommend it simply because it is so thinly traded, but given the decline in the market even as the fundamentals have improved, we have a good cushion.

Nonetheless, this is not a stock to chase, but rather to place a good-til-cancelled limit order and wait patiently. Let the stock come to you, which it may well do in the year-end tax-loss selling. If not, we are fully prepared to pay more if need be, but for now, let's place our limit at C$0.33 and see if there's someone out there desperate to sell!

Virginia shows its metal

Our favorite exploration company Virginia Mines had news last week that demonstrates the beauty of the joint venture model…as well as the negotiating skills of CEO Andre Gaumond.

Taking advantage of the financial distress of zinc producer Breakwater, Virginia bought back its 50% interest in the Coulon project. Virginia made the purchase by issuing 1.67 million shares which it simultaneously placed with third-party buyers (at a premium to the then market), so Virginia had no outlay of cash. Importantly, Breakwater retains no interest in the property, so Virginia now owns a proven zinc property, with C$33 million of exploration expenditures, free and clear, with no outstanding carried interest or royalty.

This is important, of course, because it gives Virginia negotiating room when it eventually sells the project to another party, enabling it potentially to retain a royalty (as it did with Eleonore). Given the current state of the zinc market, Coulon is of little value now, and Virginia is planning no further expenditures beyond completing a resource estimate. It can then put the project on the shelf, ready to be taken down when the market improves.

A focus on gold next year

In the meantime, Virginia is refocusing efforts on gold in James Bay, with a "gold-only" exploration budget of $7 million for next year. This highly prospective and under-explored area—Virginia put all its efforts on the prolific Eleonore when it made that discovery—offers much potential for the coming year. Despite a 60 cent jump to C$2.92 in the last two days, Virginia remains extremely undervalued (just $81 million market cap) and a top buy. After developing Coulon with someone else's money—a valuable project but in the wrong metal for the time—2009 could be Virginia's turn to shine again.