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To: MJG Capital Limited Partners

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Subject: The MJG Capital Fund, LP 2011 Second Half Review

Below is set forth The MJG Capital Fund's performance since inception.

Performance Since Inception (9/1/11):

MJG Capital Performance (net of all fees and expenses)	(3.90)%
S&P 500	3.44%
S&P/TSX Venture Composite Index	(18.22)%

Note: All returns for MJG Capital Partners are estimated and subject to the completion of an audit at a future date. In addition, the returns for each limited partner may vary depending upon the timing of their individual contributions and withdrawals.

It is an honor to present you with the first of many semi-annual reviews for The MJG Capital Fund, LP. Considering that last year at this time the fund was a dream of mine and nothing more, I'm extremely pleased with how the year 2011 has unfolded. The process of devising an investment strategy, legally structuring the fund, courting potential investors, and finally executing has been painstakingly time-consuming yet indescribably rewarding at the same time. I'd like to thank all of those that have offered advice and support throughout every stage of this process. And I'd of course like to thank those who have given the ultimate vote of confidence, my investors.

The purpose of this review is threefold: (1) to provide an update on the fund's performance versus selected benchmarks, (2) to offer commentary on macroeconomic trends and market conditions that will have (or have already had) an effect on the fund's performance, and (3) to outline the investment thesis behind one of the fund's holdings. Let's get started.

Benchmarks

Before discussing results, I'd like to explain my rationale for selecting the S&P 500 and the S&P/TSX Venture Composite Index as benchmarks. The S&P 500 was selected to be a long-term indicator of whether my underlying macroeconomic thesis is sound. As you know, I believe that the investment community (and humans in general) has failed to recognize the potent combination of explosive global economic/population growth and the continued diminishment of the finite natural resources that sustain us. As these two trends are *slowly* recognized by the investment community, I expect commodities and commodity related equities to outpace equities in general over the upcoming years (and decades), especially in the United States. If this thesis is indeed correct, then the fund will substantially outperform the S&P 500 over this time (which is considered to be index most indicative of US economic strength/weakness). Therefore, this benchmark can be used to judge the validity of my macro thesis.

The S&P/TSX Venture Composite Index is comprised of 450 micro/small-cap resource companies with resource projects around the globe. This index is the closest proxy for the stock universe that I am selecting from (as currently half of my portfolio is comprised of companies that trade in this index). Therefore, this index can be used as a long-term indicator of whether my company selection and portfolio management have been effective. In other words, assuming that my macro thesis is indeed correct, I expect *both* my fund and the S&P/TSX Venture Composite Index to handily outperform the S&P 500 over the long-term. However, the comparison of my fund to the S&P/TSX Venture Composite Index can be used to judge my investment selection.

Performance

As stated on the first page, The MJG Capital Fund, LP has returned (3.90)% since inception on September 1, 2011. This compares to a 3.18% return for the S&P 500 and a (18.01)% return for the S&P/TSX Venture Composite Index. These results are largely irrelevant, as four months of performance proves very little for an investment fund with a ten-year time horizon. The large discrepancy between the fund's performance and the S&P/TSX Venture Composite Index is due to the fact that I have eased into this seemingly bipolar market through dollar cost averaging. The fund is still 30% in cash but I expect to be fully invested within the next three months.

Market Outlook

We are witnessing the best buying opportunity for resource stocks since the Panic of 2008. It's quite fortuitous to be launching this fund during a time where 60% of my holdings are at least 60% off their 52-week highs. The catalyst for this major sell-off has been the debt issues that have taken place in both Europe and the United States. This market reaction (especially in the commodity/natural resource space, which has arguably been hit the hardest of any market sector) supports my belief that the investment community is far too US/Euro-centric. For some perspective, the majority of the companies that I have invested in will not start production until 2015 at the earliest. Do investors really believe that the prospects of these companies are 60% less attractive than they were at the beginning of the year? While I feel that it is reasonable to expect that Europe will be dealing with these issues for years to come, do investors really believe that China, India, Brazil, Indonesia, Africa, etc. will still be severely hampered by European debt issues as far out as 2015?

I for one do not. The long-term growth prospects for the emerging world are still intact, even after the turbulence of this year. The Economist recently ran a fascinating article entitled *The Hopeful Continent: Africa Rising*. The article states that "over the past decade six of the world's ten fastest growing countries were African". This trend is expected to *accelerate* over the upcoming decades. One of the primary reasons for this explosion of growth has been the rising natural resource prices that we have observed since the turn of the millennium, as Africa is a major producer of raw materials. Interestingly, I expect a powerful cycle to become more and more pronounced in the upcoming years: African countries become wealthier from rising resource prices (caused by the continued resource demands from China, India, Brazil, etc.). This newly generated wealth will in turn be used to fuel that massive infrastructure build-out and urbanization that has already begun across the continent. This of course will require the consumption of massive quantities of raw materials, pushing prices even higher. Higher prices means more revenue for resource-rich Africa, and the cycle repeats.

It is the long-term trends such as the African growth story that interest me in regards to the fund. Whether or not the Euro Zone remains intact or even whether the United States continues to flirt with default is largely irrelevant to me. The incredible population and consumptions trends that we are observing over much of the developing world *will ultimately* dictate the value of our diminishing natural resources. However, Mr. Market never fails to fluctuate due to (relatively) short-term events such as the western world's debt woes. So it's time to be greedy when others are most fearful.

Featured Investment: Northern Graphite Corporation (TSX Venture: NGC)

Investment Thesis for Graphite

Graphite has long been a key component for the aviation, automotive, steel and plastic industries, as well as in the manufacture of bearings and lubricants. Graphite has been used for decades due to its natural strength and resistance to corrosion and heat. Through these "traditional" uses, graphite consumption has been growing 5% annually for the past decade. This is expected to continue, driven by Asian steel and auto markets. Even if future graphite consumption was confined to these "traditional" uses, more production would certainly need to come online in the coming years. China presently is responsible for 75% of global production. However, similar to the recent developments in the rare earth space, China recently implemented a 20% export duty and 17% value added tax (which resulted in the doubling of graphite prices). China smartly recognizes that their current production is unlikely to even satisfy *internal* demand sometime within the next decade. Ironically, they're doing the world a favor by applying this pricing pressure, as it encourages the necessary development of graphite sources outside of China.

While it is clear that graphite will continue to have major industrial uses into the foreseeable future, there is nothing particularly compelling about the future of graphite from these "traditional" applications. However, this is only a small part of the story. Graphite's future value will come primarily from its major role in the nascent clean-tech movement that has recently begun in China. While the phrase "a green China" has essentially become an oxymoron over the past three decades, major transformations are beginning to take effect across the country. However, the enticing part (from an investment perspective at least) is that this green movement is occurring out of necessity, not newfound environmental goodwill. Thomas L. Friedman discusses this phenomenon in his recent book *Hot, Flat, and Crowded*:

> I believe China may be only five years away from deciding that it has to go green no matter what America does, because too many of its people simply cannot breathe its air, because too many of its rivers are too polluted to drink from, because too many of its lakes are too polluted to fish from or swim in, because too many of its forests have

> been cut back to the bone, and because climate change is already affecting China in the form of prolonged droughts and more frequent dust storms. I believe China may soon go green not because enough Chinese saw Al Gore's movie and were persuaded, but because the grim realities of daily life are persuading China's leaders that they have no other choice. They will realize that China must go green out of necessity.

These words (written in 2009) turned out to be incredibly prescient. In March 2011, China passed its twelfth "Five-Year Plan". There were numerous mandates, but two in particular catch the eye in regards to this clean-tech movement. First, China is pushing to have 10 million fully electric vehicles on the road by 2020 by offering massive subsidies to consumers and providing "EV-only" parking spots. Considering China's impressive record of implementing these mandates, I would be very surprised if China had *less* than 10 million EV's on the road by 2020.

From a graphite perspective, this is very promising. The lithium-ion battery is the battery of choice for the future of electric vehicles. The Nissan Leaf, Toyota Prius, and Tesla Roadster all feature this battery, valued for its high energy density. There's no indication that this will be changing for quite some time. Interestingly, a lithium-ion battery includes 10-20x more *graphite* than lithium itself. So the production of these 10 million EV's will require massive amounts of graphite. But more importantly, this mandate will accelerate the world's transition from fossil fuel to electric transportation. Unfortunately, it seems as if China will be leading the charge (pun intended) and not the United States.

Second, even though the Five-Year Plan was released just after the horrific earthquake and ensuing nuclear disaster in Japan, China stresses that it will be *ramping up* its investment into nuclear energy. (Chinese leaders seem to view nuclear power as the lesser of two evils when compared to carbon-based sources such as coal and natural gas. I agree wholeheartedly.) Unsurprisingly, the Chinese leaders stressed that safety was of the utmost importance in this endeavor.

While "safe nuclear power" seems to be yet another oxymoron, China has a trick up their sleeve: the pebble bed reactor (PBR). This technology, which is widely believed to be superior in both safety and design when compared to traditional reactors, has the potential to transform the nuclear industry. The first of these PBR plants is currently under construction and will be commissioned by 2014. If this trial run proves to be successful, then up to thirty more PBRs will be constructed by 2020. This may well be largest planned nuclear power deployment in history.

Not surprisingly, graphite is an essential component of pebble bed reactors. As described by the New York Times in March 2011:

> Rather than using conventional fuel rod assemblies of the sort leaking radiation in Japan, each packed with nearly 400 pounds of uranium,

> the Chinese reactors will use hundreds of thousands of billiard-ball-size fuel elements, each cloaked in its own protective layer of graphite. The coating moderates the pace of nuclear reactions and is meant to ensure that if the plant had to be shut down in an emergency, the reaction would slowly stop on its own and not lead to a meltdown.

Pebble bed nuclear reactors seem to be another avenue for the consumption of graphite to increase significantly in the coming years.

There are even more potential graphite applications in the clean-tech and high-tech fields. These include vanadium redox batteries, solar power, and graphene to name a few. However, the key takeaway from this discussion is not that these technologies in particular will be successful. I'm not in the business of picking winners in the clean-tech or high-tech fields. Instead, the simple fact that graphite is an integral part in a large number of potential future technologies indicates to me that this is a material worth owning. As Sun Tzu famously stated in *The Art of War*, "The thing is to see the plant before it has germinated, to foresee the event before the action has begun." And while we have seem minimal action up to this point, the direction and scale of China's green transformation is too significant to be overlooked.

Investment Rationale for Northern Graphite Corporation

Northern Graphite Corporation is an Ottawa based Canadian mine development company that trades on the TSX Venture Exchange. The company's principal asset is the Bissett Creek graphite project, which is anticipated to begin production in the second half of 2013. This would make NGC the only producer of high purity graphite in North America.

NGC is an enticing investment for numerous reasons, starting with its experienced management team. The team is led by CEO Greg Bowes, who has 25 years of experience in the resource and engineering industries. In addition, they have a President who has operated a graphite mine and a technical advisor with 40 years of experience in graphite and industrial minerals.

I've had the pleasure to speak with Mr. Bowes on multiple occasions and have come away very impressed. His focus on timely execution and increasing the underlying value of his firm (versus the stock price) are the exact characteristics that a long-term investor seeks. We also share similar views on the long-term prospects of graphite (and basic materials/commodities in general). This gives me further confidence that he'll make decisions that are in the best interest of the long-term shareholder.

Another key advantage that Northern Graphite holds is its substantial headstart over other potential graphite producers. This, coupled with NGC's experienced management team and the fact that Bissett Creek was already explored thoroughly

in the 1980's, means that they are on track to be online a full two years over its competitors. This means that they will be able to profit from elevated prices for a period of years, establish numerous supply agreements, and focus on expanded production. All good things.

As touched on in the previous paragraph, Bissett Creek has the potential to become the world's largest graphite mine within the next decade (due to the project's ample reserves and the low operating costs inherent with an open pit mine). This of course is dependent on graphite market demand, which should be strong given the clean-tech trends outlined above.

Another virtue of Bissett Creek is that upwards of 90% of its graphite production will be of the large flake variety. This is significant, as large flake graphite demands a 20+% premium in the current market. This is also the graphite variety that will be used in clean-tech and high-tech applications. No pencils here.

Based off of my DCF calculation, NGC's intrinsic value per share is around $4.25. This assumes a long-term graphite price of $3000 per ton and an aggressive discount rate of 16% (similar to the rate of return I could get on comparable mining projects). The stock is currently trading around $0.90. Even if it took ten years for this intrinsic value to be realized (and it's quite possible that NGC will still be a holding then), that's a 17.7% return compounded annually on the position. Not too bad. But I wouldn't be surprised to see that price sooner, as more and more catch on to green transformation that we are beginning to see in China.