To: **MJG Capital Limited Partners**

From: **Matthew J. Geiger**

Date: **July 22, 2014**

Subject: **2014 First Half Review**

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

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6 Month Performance:

The MJG Capital Fund, LP (net of all fees and expenses)	17.14 %
S&P 500	6.05 %
S&P/TSX Venture Composite Index	10.35 %

1 Year Performance:

The MJG Capital Fund, LP (net of all fees and expenses)	8.86 %
S&P 500	19.44 %
S&P/TSX Venture Composite Index	16.68 %

Performance Since Inception (9/1/11):

The MJG Capital Fund, LP (net of all fees and expenses)	(61.66)%
S&P 500	60.81 %
S&P/TSX Venture Composite Index	(43.20)%

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.

Introduction & Partnership Update

This is The MJG Capital Fund, LP's sixth semi-annual letter. The Partnership was formed thirty-four months ago and the results are detailed on the previous page. The S&P 500 represents "the alternative investment of choice", while the S&P/TSX Venture Composite Index ("TSX Venture Index") is the closest proxy to the universe of resource equities that the Partnership selects from.

This is the first time that the Partnership has outperformed both the S&P 500 and the TSX Venture Index on a semi-annual basis since H2 2012. Additionally, the Partnership has returned roughly 9% (net of fees/expenses) in the past year. In absolute terms, this 9% trailing year return is far short of what is needed to make this a worthwhile investment for the *original* partners. (Remember that our goal is 30% annual compounded returns over a 10-year period.) Nonetheless, this has been an encouraging start to 2014 as the resource market continues the bottoming process, and it remains a fantastic opportunity to invest "patient money" in carefully selected resource equities. If the Partnership continues this outperformance on an ongoing basis, then both original and more recent LPs will perform satisfactorily well.

While the Partnership struggled mightily in the early/mid stages of this historical bear market, the upcoming quarters are where our patience will begin to be rewarded. The Partnership currently owns 25 hand-selected resource companies that have pulled away from their peers over the past three quarters. This bifurcation is set to continue for the foreseeable future, and the Partnership continues to accumulate positions that offer either unique value or speculative value when compared to their peers.

The Partnership also continues to slowly add "Alternative Resource Investments" to the portfolio. This gradual reallocation has already reduced correlation between the Partnership's holdings, as these investments belong to resource industries (i.e. Forestry, Farmland, Water Desalinization, and Aquaculture) that do not follow the Mining Cycle. My target is for a minimum of 30% of the portfolio to be Alternative Resource Holdings, though it will take some time to reach this allocation target.

In the *Site Visit* section, I discuss my recent visit to Excelsior Mining's Gunnison Project in southeast Arizona. Pictures from the visit can be viewed here.

In the *Market Outlook*, I first discuss the sustainability of the S&P 500's historic bull market. I then discuss the reduced correlation we are seeing within the resource space, both between physical commodities and between companies. Bifurcation between "the best and the rest" is a strong positive for the Partnership.

In the section titled *Wall Street Exodus,* I discuss the recent exit of Wall Street from both resource equities and physical commodity trading/price setting. While so far this trend has gone largely unnoticed, there will be medium and long-term ramifications from a reduced banking presence in resources.

I conclude with this letter's *Featured Investment* – Tsodilo Resources Corp. Tsodilo is one of the Partnership's five largest positions, as a result of its outperformance of both the market at large and the majority of Partnership-specific holdings. I then provide an update on past Featured Investments (including Western Lithium Company, which has doubled in price since it was featured in the January 2014 semi-annual).

Site Visits

In April, I traveled to Phoenix, AZ to take a look at Excelsior Mining Corporation. Excelsior is copper development company hoping to advance its Gunnison Project to production. I was first drawn to the name in February of this year due to the enormous gap between the company's market cap and Gunnison's net present value (which was recently stated at ~$800M after-tax, with conservative copper prices). At the time of the visit the market was valuing Excelsior at roughly $20M, which is a huge disconnect for a Prefeasibility stage project in the United States.

The day-long tour was given by Excelsior's VP of Exploration Roland Goodgame. We visited Excelsior's field office/core shed in Tucson before visiting the actual development site in remote southeastern Arizona. His candid demeanor and extensive experience in the mining field gave me confidence in management and the project's chance of success in general. Investors in Excelsior should of course be cognizant of the risks (permitting, copper prices, ISR technology, etc), but Gunnison's chance of success is markedly higher than what the market currently believes. In other words, Excelsior offers strong speculative value.

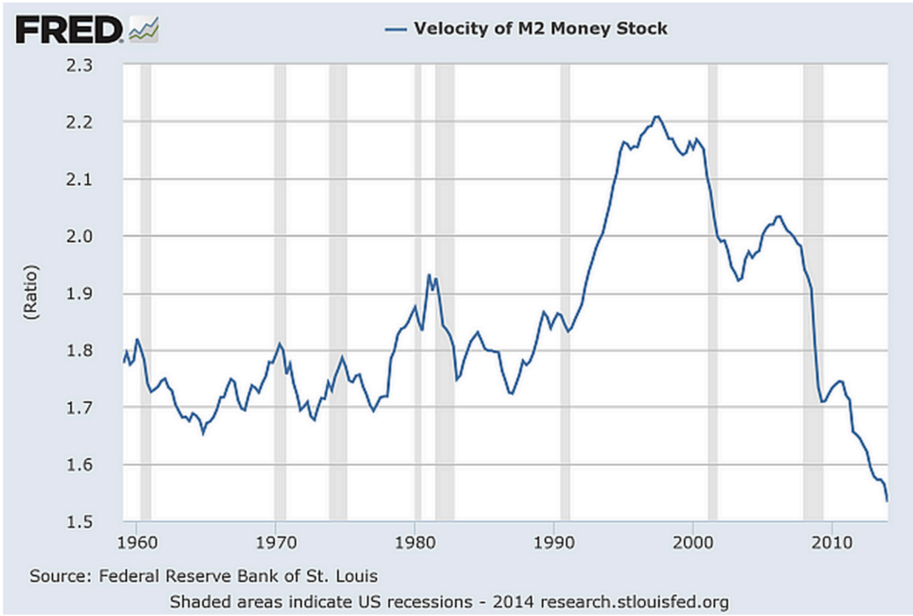
Pictures from the visit can be viewed here. Additionally, after a recent liquidation event in a separate copper holding, the Partnership will take a position in Excelsior over the upcoming weeks. I look forward to writing more extensively about this company in future letters.

Market Outlook

I will start with the Partnership's designated "alternative investment of choice" - the S&P 500. For the past five years, investors in the S&P 500 have enjoyed fantastic returns and minimal volatility. It is also likely that this "easy money" will be available for some time. The path of least resistance certainly seems to be up. However, it is essential to remember that, even as the S&P's steady rise grows more and more intoxicating to the average investor, the past is not indicative of the future. This is not to say that a prudent speculator can't make money by buying at these levels and then selling at an opportune time in the next 1-3 years. But for those trying to build a nest egg or save up for a college education, this is not the place to be. In light of the below chart, you can't possibly believe that you're early to the party!

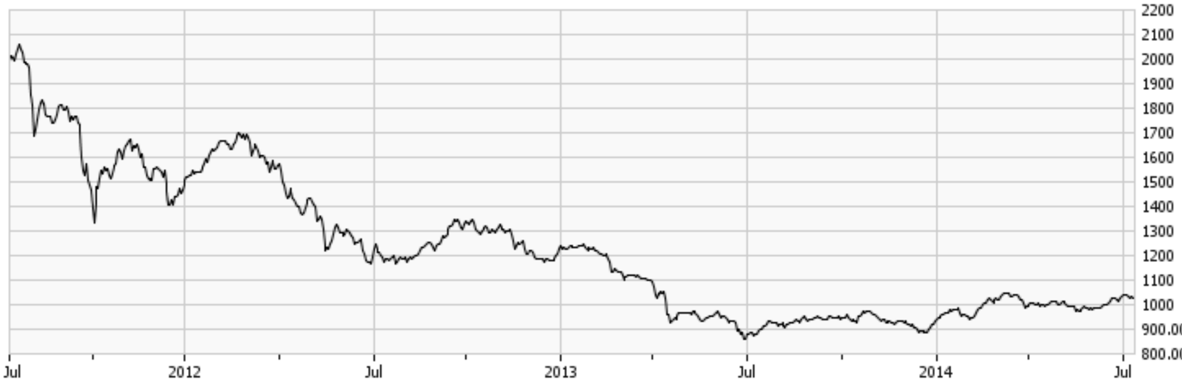
The US macro backstop does not seem to support the rally. I understand that increasingly more of the S&P's revenues are being generated outside of the US (currently 45% of S&P revenues are from overseas), but one would think that the recently reported 2.9% decline in US GDP for Q1 2014 would have at least some effect on the exuberance. A glance at the above chart suggests otherwise. Additionally, as stated in the previous letter, the most significant data point that belies this rally is the dearth of U.S. Net Investment over the past decade. With Tesla's Gigafactory being a notable exception, the slump in capital expenditures (even in a period of record profits) does not bode well for the sustainability of this move.

A sharp decline in the velocity of money also behooves the current market environment. As demonstrated by the below chart, the velocity of the M2 Money Stock has plunged over the past five years. This is happening despite historically low interest rates and the Fed's multi-year money printing experiment that will continue through at least 2014. In his typically direct (and sometimes draconian) manner, John Kaiser concludes: "The people of America are paralyzed with fear about the future; the shriveling middle class has no spending power and the elite has no desire to spend its accumulating net worth. Banks are not lending because there is no vision of America's economic future, businesses are not investing capital because they do not see a growing consumption demand, and the wealthy are preparing to ride out the deflation that will accompany the return of interest rates to normal levels." There are notable exceptions to this statement (think Silicon Valley or the shale gas boom), but I agree largely with this sentiment.



Trends keep working in the same direction until they don't. When a trend stops working, there is a reversal in the opposite direction. And the longer the original trend, the more painful the reversal (think 2000 or 2008). Whether the next S&P reversal occurs before or after the Fed ceases their omnipresent hand waving remains to be seen. But, one way or another, there will be a significant reversal in the near to medium term. This is the nature of our debt-fueled, boom and bust economy.

Switching gears to the resource market, it appears that the TSX Venture Index bottomed in mid-2013. (Remember that 80% of the Partnership's capital is deployed in mining equities, with many of these companies in the exploration/development stages. The TSX Venture Index is the best proxy for this market.) While determining a market bottom is an inexact science at best, the stages of capitulation we witnessed in 2012/2013 and the current market disinterest signals that, in the absence of a black swan event, the TSX has reached its lows in this current cycle. The below chart outlines the index's performance in this historic bear market.



However, this "bottoming" needs to be taken with a grain of salt. The index as a whole is unlikely to zoom upwards anytime soon and many marginal companies will continue to decline for the indefinite future. There are still lots of dead beats out there. According to John Kaiser, 60% of juniors in the TSX Venture Exchange have $500k or less in capital. Companies with this amount of capital will have a hard enough time covering overhead, let alone making tangible development progress on their properties. Within a year there will be dramatically fewer choices in the resource space – these companies can only function as walking dead zombies for so long.

As this attrition continues over the coming quarters, in composite, the surviving juniors will be much stronger than the current batch. Bad bear markets are the perfect breeding ground for leaner and meaner indexes. There will be a time in the upcoming two years where a fresh wave of money enters the junior resource market, right as the remaining zombies are closing up shop. This decrease in variety of potential investments will be good for two reasons. The first is that institutions will begin to team up in financing the very best prospects, leading to strong shareholder bases all around. The second is that these surviving companies are poised for exciting outperformance. As these new investors reap killings in the junior space, more money will find its way into resources as the cycle shifts into a bull market. The Partnership looks forward to waiting patiently as this process unfolds.

One of the most frustrating aspects of the past few years has been the high correlation between all mining related equities. Regardless of the company's fundamentals, the only direction for the past couple of years has been down. This is a terrible situation for investors attempting to cherry pick the very best from a larger universe of companies. (I am a strong believer in Pareto's Principle, or the "80-20 Rule". This rule of thumb dictates that 80% of any industry's profits are generated by the best 20% of the companies. Extending that further, 64% of an industry's profits are generated by the best 4% of the companies.) That being said, this concept was temporarily defied in the previous few years as all mining equities traded lower in tandem.

The exciting news is that bifurcation is now very real between the Partnership's current holdings and "the rest". This is the "stealth rally" that Rick Rule often references – and it has really come to life since November 2013. I've provided some charts below to demonstrate this marked change of performance since late 2013. For points of comparison, I also provide the aggregate performance of past holdings of the Partnership (that have been liquidated due to poor operational performance) and the TSX Venture Index as a whole. Keep in mind that these charts assume equal weightings between all Partnership holdings. As evidenced by the upcoming *Overview of Partnership Holdings* section, this is a simplification.

Current Holdings

Past Holdings

TSX Venture Index

The Wall Street Exodus

Over the past twelve months, an unmistakable trend has taken shape - large banking interests are distancing themselves from the commodity/resource markets. This has only accelerated in the first half of 2014 – where we have seen Morgan Stanley, Barclays, JP Morgan, and Goldman Sachs sell their physical trading groups. Additionally, we will witness the dissolution of the century-old Silver Fixing Index in August 2014, with the Gold Index likely to follow. I will first describe this phenomenon and the likely catalysts for this "Wall Street Exodus". I will then speculate on the longer-term impacts of reduced Wall Street influence on commodity prices and the resource markets in general.

Timeline:

2010-2011: 43 Complaints Filed Against JP Morgan For Silver Manipulation

March 2013: Case Against JP Morgan Is Dropped

December 2013: Deutsche Bank Exits Commodity Trading

December 2013: Volcker Rule Is Passed

April 2014: Volcker Rule Goes Into Effect

April 2014: Barclays Withdraws From "Most Global Commodity Activities"

May 2014: Goldman Sachs Puts Metals Warehouse Up For Sale

May 2014: Barclays Fined By British Regulators For Gold Manipulation

August 2014: Dissolution Of The Silver Price Fix

The imminent folding of the The Silver Price Fix is particularly interesting news. This arrangement has been setting the price of silver for over 117 years. Before the news, HSBC, Deutsche Bank, and Bank of Nova Scotia served as the three market makers for the international price of silver. Every day at noon GMT the members would meet and decide the silver price for the day. It is fascinating that in this world of electronic trading, old-fashioned market making still serves important functions in the financial world. However, in the case of the Silver Fix, Deutsche Bank was forced to withdraw from the arrangement after repeated regulatory investigations for precious metal price manipulation. The 3 price setters will continue to function as normal until mid-August, where a new electronic system will be implemented. (On July 11, CME/Thomson Reuters were chosen to run the new price setting system.) It remains to be seen whether the new electronic price setting system will be more or less amenable to manipulation. I could certainly see it going both ways.

Both the dissolution of The Silver Price Fix and the likely dissolution of The Gold Fix (which currently has 5 banks serving as market makers) reduce banking influence on commodity prices. Additionally, it is evident from the above timeline that Wall Street is also abandoning in droves commodity prop trading, commodity warehousing, and various other resource-specific functions. The twin forces of this decreased banking presence are (a) the Volcker Rule and (b) reduced volatility/attention on the resource market in general.

The Volcker Rule's intention is to ban proprietary trading within commercial banks. (Proprietary trading is where deposits are used to trade on the bank's account – a practice that can be both lucrative and risky.) The rule, named after former Fed Chairman Paul Volcker, was first introduced in 2009 in response to the financial crisis beginning in 2007. After three years of tinkering, the Volcker Rule was eventually passed as part of the Dodd-Frank Bill in December 2013 and went into effect in April 2014. There is no doubt that the Volcker Rule has reduced Wall Street's influence over both commodity prices and resource equities. Due to the inherent volatility, these markets in particular have always been a favorite place for prop traders to speculate. A case in point is the resource mania we saw in 2005-2007, which coincidentally was also a time period where prop trading went rampant within Wall Street banks. Even though the Volcker Rule has only been implemented within the past few months, it has had an effect for multiple years on Wall Street's resource presence. The mere possibility of the bill has set compliance officers scurrying, and prop trading (both resource-specific and in general) is in major decline.

The resource market of today is far different from what we have witnessed over the past decade. Gone are the days in 2007 and 2008, where the price of oil dominated the front page of the New York Times. Instead, commodity price volatility is at 10-year lows in many major commodities. Additionally, investor interest in resource equities is at historic lows. This may be an ideal occasion to be investing in select resource equities, but it is certainly not a great time to be a resource-focused banker. This low interest and low volatility have certainly contributed to the Wall Street exodus.

In the immediate term, there haven't been major effects from the developments described above. However, in the medium to long term (let's say 2-5 years), there will be multiple results from a reduced banking presence in the commodity/resource sphere. The first effect is that money is currently going from "weak hands to strong" and will continue to do so for some time. Wall Street in general is a "weak" shareholder, lacking both patience and dedication once the going gets tough. However, these flaky shareholders continue to sell their resource equity shares and future contracts to "strong" investors (such as the Partnership) that have patience and conviction in the long-term resource story. This process always occurs as bear markets bottom and ultimately results in more efficient allocation of capital to quality projects. This is in stark contrast to what we see (and will continue to see) in the tops of bull markets – where almost any project can receive funding, regardless of the quality.

Additionally, while Wall Street in general is a fickle group, it is consistent with the fact that big banking interests will always go to where the money is. As evidenced by the low volatility and low investor interest, the money has clearly gone elsewhere in the case of resources. However, sometime in the next 5 years the story will change and resources will become "hot" once again. When that happens, Wall Street will come back. And when they come back, they will come back en masse. (With or without the Volcker Rule – Wall Street will find a way to gain exposure.)

Wall Street is a foolproof barometer for contrarian investors. When Wall Street vacates a certain industry en masse, it is a sign that bargains are to be had. The key factor is patience, as these bargains will often take years to reach fair value. Conversely, as Wall Street enters an industry in full force, the prudent investor exercises increasingly greater caution. I look forward Wall Street's next swing to exuberance regarding the resource market, because this will result in both higher share prices and possible exit points for Partnership holdings. In the meantime, the current negativity gives me confidence that now remains an excellent buying point for carefully selected resource equities.

Overview of Partnership Holdings

Below is an approximate breakdown of the Partnership's holdings as of July 15. The Partnership is exposed to different commodities, different jurisdictions, and different stages of the development cycle. The Partnership continues to accumulate "Alternative Resource Holdings", indicated in the below chart with asterisks. These holdings are resource-focused yet minimally correlated to the mining cycle. My target is for a minimum of 30% of the portfolio to be Alternative Resource Holdings, though it will take some time to reach this allocation target.

Allocation By Primary Commodity	
Food & Water	
Phosphate	6%
Sustainable Aquaculture*	5%
Farmland w/ Water Rights*	3%
Potash	3%
Seawater Desalinization*	2%
Wood Products	
Sandalwood*	7%
Clean Energy Metals	
Uranium	13%
Silver	12%
Scandium	10%
Rare Earth Elements	5%
Platinum Group Metals	4%
Graphite	4%
Lithium	3%
Infrastructure Metals	
Copper	16%
Iron Ore	2%
Cash	5%

*** Signifies minimal correlation to the "Mining Cycle"**

Allocation By Country (Flagship Project/Operation)	
Canada	19%
Australia	15%
Botswana	9%
Sweden	8%
United States	7%
Argentina	6%
Norway	5%
South Africa	4%
Mexico	3%
Eritrea	3%
Ecuador	3%
Guatemala	3%
Serbia	2%
Singapore	2%
Brazil	2%
Ethiopia	2%
Gabon	2%
Cash	5%

Allocation By Operational Phase	
Exploration	22%
Development	43%
Production	30%
Cash	5%

Featured Investment: Tsodilo Resources Ltd (CVE:TSD)

Tsodilo Resources is an exploration/development company with operations in Botswana. The company has uniquely positioned itself as (a) a Botswana-based prospect generator, (b) an iron ore development play, and (c) a promising "carried interest" copper play. With a current market capitalization of ~ $40M, the company offers excellent speculative upside. Additionally, TSD's multi-pronged approach and strong shareholder base provides a decent Margin of Safety at this valuation.

The Partnership has held TSD since inception with an average cost of $0.85 per share. As of July 15, Tsodilo is trading at $1.30. TSD is the second strongest performer of the 7 holdings (out of 25 current holdings) that the Partnership has stuck with since inception in September 2011. Additionally, due to this outperformance, TSD is one of the Partnership's top 3 largest holdings.

In this *Featured Investment* piece, I start by providing the investment theses for copper and iron ore (the two metals of most interest to Tsodilo shareholders). It is important to keep in mind that Tsodilo has not yet found a copper deposit and is only just starting to define its Xaudum Iron Ore Formation. If the company doesn't ultimately find economic copper or iron ore, then the prospects for these two commodities are irrelevant. Conversely, if the company does end up gaining exposure to a world-class copper or iron ore deposit, then shareholders will be rewarded regardless of the copper/iron ore price (baring a monumental collapse). Regardless, I thought it would be good to share my investment theses on both of these metals for some broader perspective on the Tsodilo Resources story.

I then profile the African country of Botswana – the sole jurisdiction in which TSD operates (though the company does have their corporate office in Toronto). The stability of Botswana both geopolitically and as a viable mining destination is essential to the success of this investment.

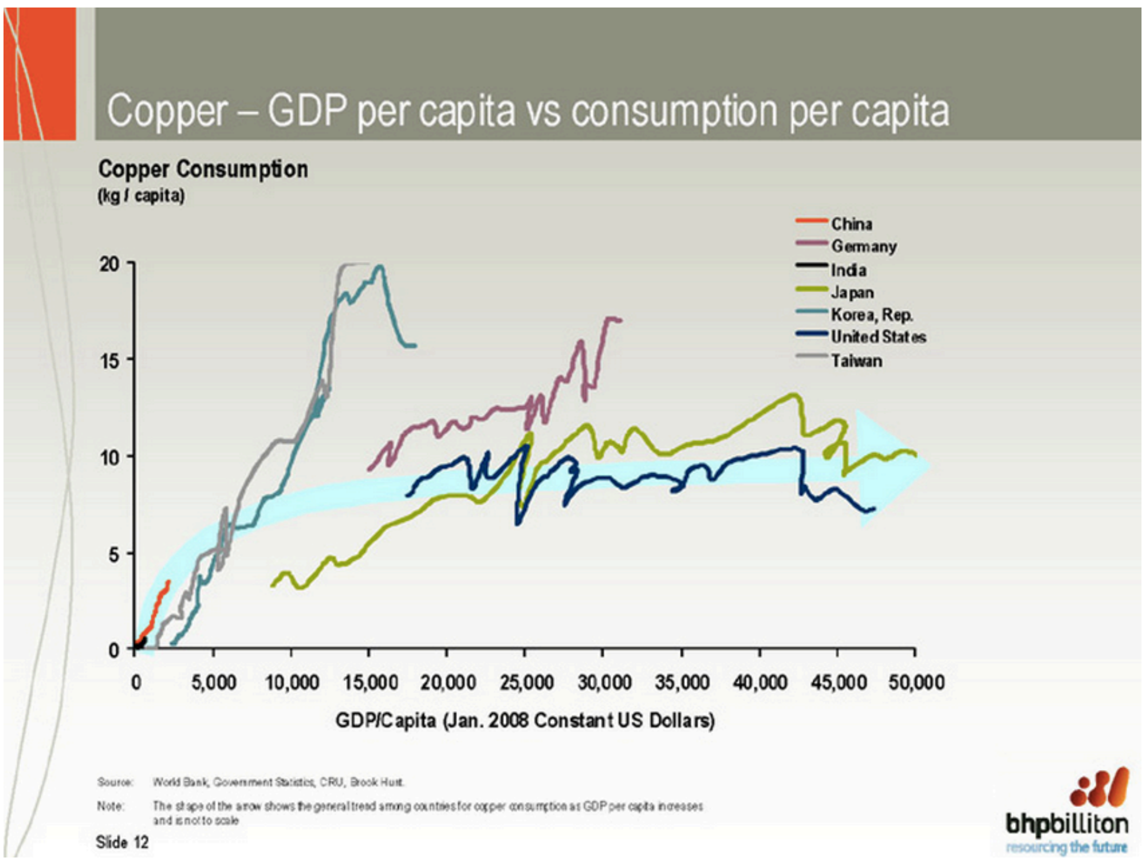
I conclude with my investment thesis for Tsodilo, covering the company's background, management team, current operations, and ultimate upside as an investment. I then comment on Tsodilo's Margin of Safety as, with any investment, understanding the downside is just as important as knowing what there is to gain.

Investment Thesis for Copper

Copper is one of the world's most widely used industrial metals, valued for its conductivity and malleability. Copper has hundreds of use cases, including: electrical power cables, data cables, electrical equipment, automobile radiators, cooling and refrigeration tubing, heat exchangers, artillery shell casings, small arms ammunition, water pipes, and jewelry.

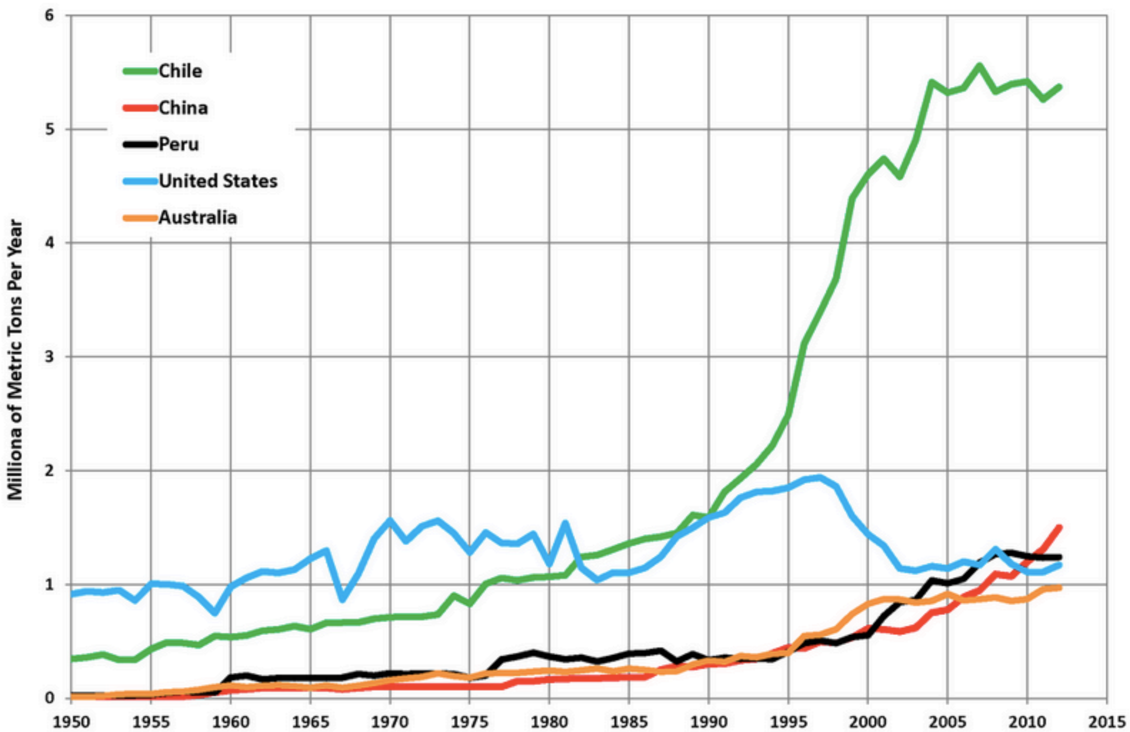
While copper is a key component of many high tech applications, for simplicity's sake I think of copper as an "infrastructure metal". This means that if a building is being constructed, new electricity access is being provided, or new water infrastructure is being installed, you can be sure that a significant amount of copper is being used.

The below chart (courtesy of BHP Billiton) views copper consumption in terms of GDP per capita. You'll notice that copper consumption per capita increases exponentially in developing nations, before leveling off when GDP per capita reaches between $20,000 and $30,000. (Note that neither China nor India are remotely close to this threshold.)



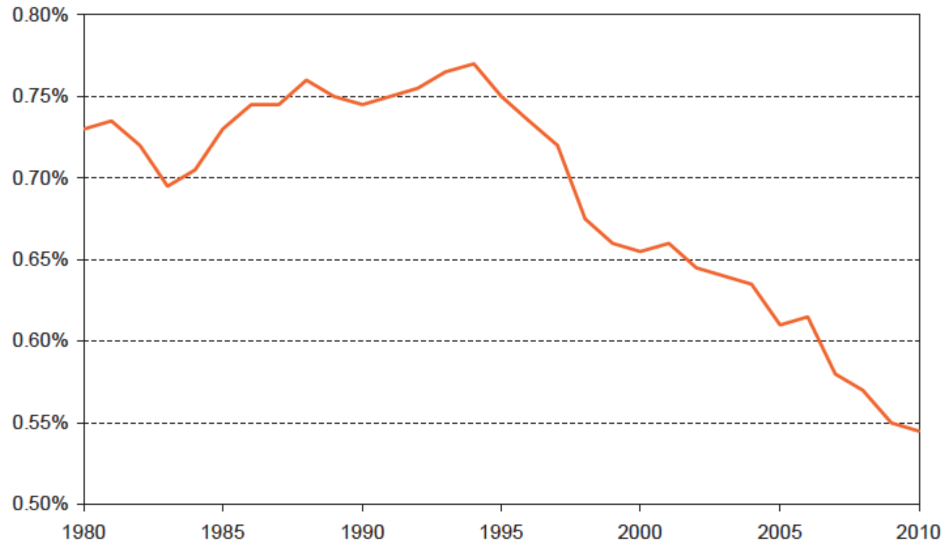
According to Rick Mills, "One billion people will enter the global consuming class by 2025. That's 83 million people per year. Demand is not going to go down. China will have to increase its average urban per-capita copper stock by seven or eight times just to achieve the same level of services we in the West enjoy." Demand is growing exponentially and, even if emerging economies only grow modestly in the coming decades, this is mathematically set to continue. Further confidence in future copper demand projections stems from the low substitutability of the metal. The International Copper association states that "substitution has accounted for losses of about 2 percent a year in copper usage globally over the past three years". For some perspective, Chinese copper demand has grown 15% per year since 2000.

Switching to the supply side, economic copper resources are being depleted with the equivalent production of three world-class copper mines being consumed annually. The majority of this production comes from five countries, with Chile being the clear copper king. You'll notice from the below chart that all of these companies (with the United States being an exception) have scaled up production drastically in the past two decades to meet demand. Copper supply is expected to continue its rise for at least the next 4 years, as massive development projects (most notably Rio Tinto's Oyu Tolgoi mine based in Mongolia) reach commercial development. Due to this ramp up, copper is expected to be in surplus for the medium term.



This increased production comes with a price however. Similar to all major commodities, the cheapest, most easily extractable reserves always go first. As these become exhausted, producers turn to mines that are less rich in copper, more expensive to develop, more technologically difficult, more geopolitically risky, or all of the above. This has resulted in rapidly escalating production costs, and this too will continue. The below graph demonstrates marked decline we've seen in ore grades in the past 15 years. In short, even taking into account technological advances, it is costing more and more to produce the same amount of copper.

Recoverable Copper Ore Yield Grade



Source: Barclays Capital As of 12/31/10

There are large-scale, high-grade copper deposits still waiting to be developed, but these are located in operationally/geopolitically risky jurisdictions. (Think Congo, Mongolia, Ecuador, Eritrea, and Serbia to name a few.) Some of these deposits will not be put into production due to these risk factors. However, those that do will make very satisfactory returns at current copper prices. And while copper will not likely make a dramatic upward move in the near term, when it does occur, the operating margins for these "top quartile deposits" will only increase. There remains a tremendous opportunity for select high-grade copper deposits going forward.

Investment Thesis for Iron Ore

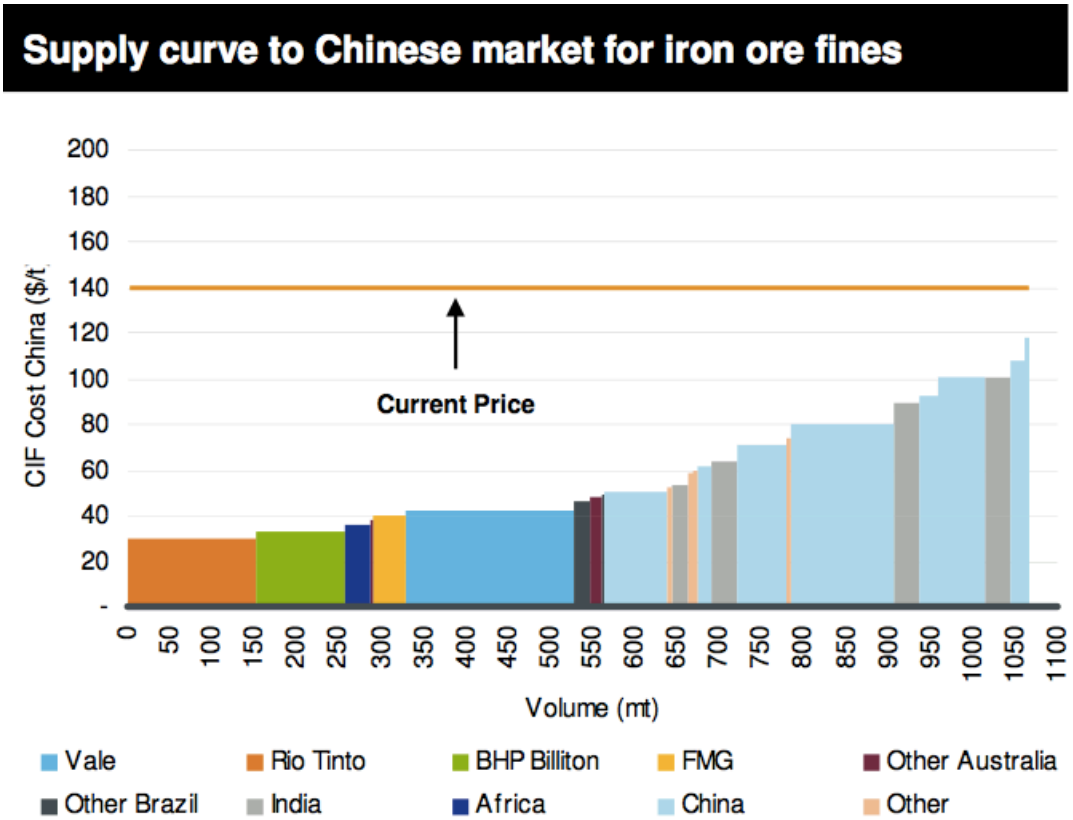
The story for iron ore is a similar tale, although in recent times price fluctuations have been particularly volatile. Iron ore is a similarly important base metal to copper and is a crucial commodity for mining giants such as Rio Tinto, Vale, and BHP Billiton. Iron ore is critical component of steel production and roughly 98% of mined iron ore is used to make steel. Steel is involved in virtually every large-scale construction project and should be considered an "infrastructure metal" alongside copper. In absolute terms, iron ore has been more integral to the global economy than any other commodity (with the possible exception being oil).

As is the case with nearly every major commodity, global iron ore demand is growing exponentially. Aside from cement, iron ore is the commodity most highly correlated with Chinese growth and economic expansion. In fact, since 2000, China itself has accounted for the entire growth in iron ore demand and consumes ~48% of all iron ore produced globally. These are stunning numbers considering that rampant infrastructure construction is far from a Chinese-specific phenomenon.

Iron ore demand will continue growing exponentially over the coming decades, but on an annual basis, demand will continue to fluctuate more erratically than most basic materials.

China, Australia, and Brazil contribute over 75% of global iron ore supply. In fact, 45% of global production comes from China alone. However, as the supply curve on pg. 17 suggests, not all iron ore miners are created equal. There are two types of iron ore deposits: hematite and magnetite. These have very different economics. High-grade *hematite deposits* are often referred to as Direct Shipping Ore ("DSO") because it is mined and beneficiated using a relatively simple crushing and screening process before being exported for use in steel mills. One of the major advantages hematite ore has over other types like magnetite is its high iron content. That makes the iron extraction process much less costly and time consuming.

Magnetite deposits are much lower iron content than their counterparts. That means the ore has to be concentrated before it can be used to produce steel, resulting in a higher operating cost. Until the next prolonged period of iron ore price appreciation, the majority of iron ore deposits brought to production will contain hematite rock. However, baring a further collapse in the iron ore price, there is still opportunity for strategically located magnetite deposits (Tsodilo's Xaudum Iron Project being a prime example).



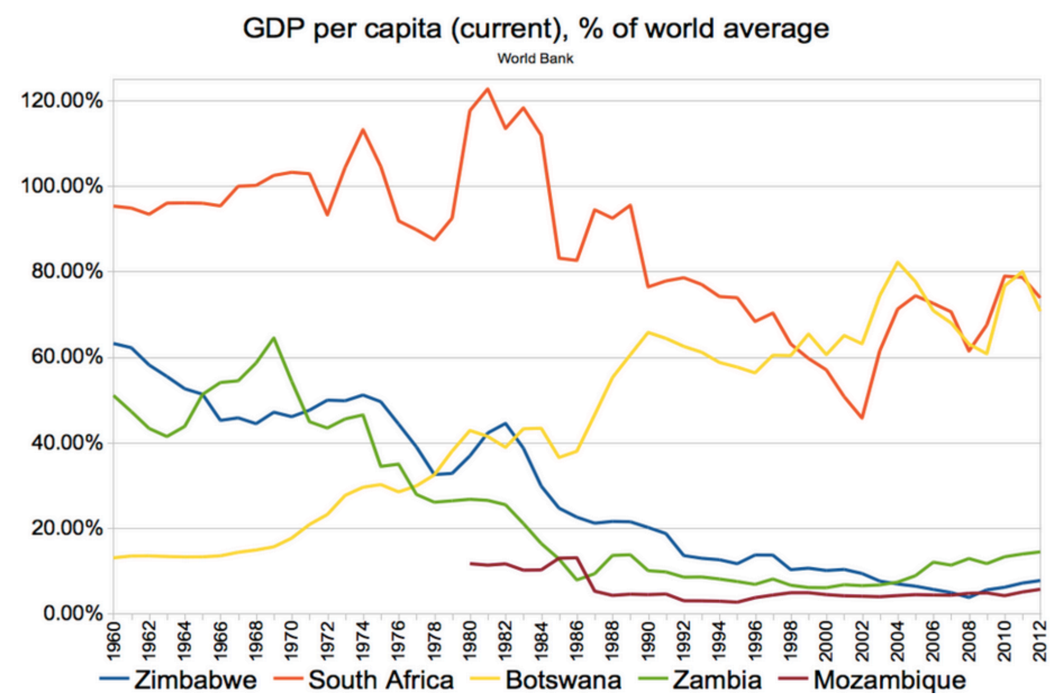
Source:Macquarie/The Steel Index as at end March 2010

There has been a 30% plunge in iron ore prices YTD and the price currently sits right around $100 per tonne. Interestingly, it seems as if this price decline has been engineered by the aforementioned mining giants (Rio Tinto, Vale, and BHP) to drive high-cost producers out of business. Far from being conspiratorial, this theory makes perfect business sense. Considering that average cost of production of the giants is ~$60 per tonne of iron ore, they were making an absolute killing when iron ore prices where above $150 per tonne in early 2013. However, the giants realized that they could kill two birds with one stone by dramatically increasing their production profiles. The first benefit is higher overall profits (a ~70% profit margin is still very strong, especially considering a large increase in production capacity). The second benefit is that current prices around $100, many high-cost/small-scale iron ore operations will be forced out of business (the average operating cost for Chinese iron ore producers is $80-90, not far below current prices). A bonus is that this price decline will cause marginal development projects to be shelved until markedly higher prices return, putting a limit on medium term supply. For at least the next 4-5 years, marginal iron ore development projects will be shunned and only best of breed projects will make progress towards production.

Investment Thesis for Botswana

Botswana is a landlocked country located immediately to the north of South Africa. 70% of the country is covered by the Kalahari Desert. The country has a population of just over two million. Considering this population, Botswana's landmass is surprisingly large (roughly the size of France) – making Botswana one of the most sparsely populated countries in the world. As Jared Diamond taught us in *Collapse*, in general, more sparsely populated countries have greater stability than their high-density counterparts.

Botswana has been a democracy since 1966 with a consistent record of uninterrupted elections. This impressive stability relative to the rest of Africa has spilled over into the nation's economy, and Botswana has been one of the world's fastest growing economies for the past 15 years. The country has a GDP per capita of $16,400 per year, which, for some comparison, is higher than China's. The mineral industry provides about 40% of government revenues, with the vast majority of mining revenues coming from diamonds.



Ignoring the diamond industry, Botswana is one of the more underexplored mining destinations in Africa. The government is cognizant of this and announced in early 2009 its intention to shift Botswana's economic dependence on diamonds. Since roughly 2007, several international mining companies have established a headquarters in Botswana's capital Gaborone and begun prospecting for gold, uranium, copper, iron ore, and oil. Companies currently active in Botswana exploration include: First Quantum Minerals, Jindal Steel, Tsodilo Resources, Honda Copper Corp, and Galane Gold. However, considering Botswana's large landmass, much of the country is unexplored. (For instance, Tsodilo's properties in the northwest of the country are "virgin lands" - prospects that haven't been touched by previous mining outfits.)

The northern part of Botswana hosts the geological setting for stratiform copper-cobalt deposits similar to that of the Copperbelt in Zambia and Congo. This is highly promising given the world-class nature of the Congo and Zambian copper mines located to the north of Botswana. At this point, not enough drilling has occurred to confirm or deny this possible southern extension of the same copper-rich formation. However, when Botswana's promising geological setting is considered alongside the fact that the country is finally being explored for minerals beyond diamonds, it seems likely that a world-class deposit will be discovered somewhere in Botswana over the next few years.

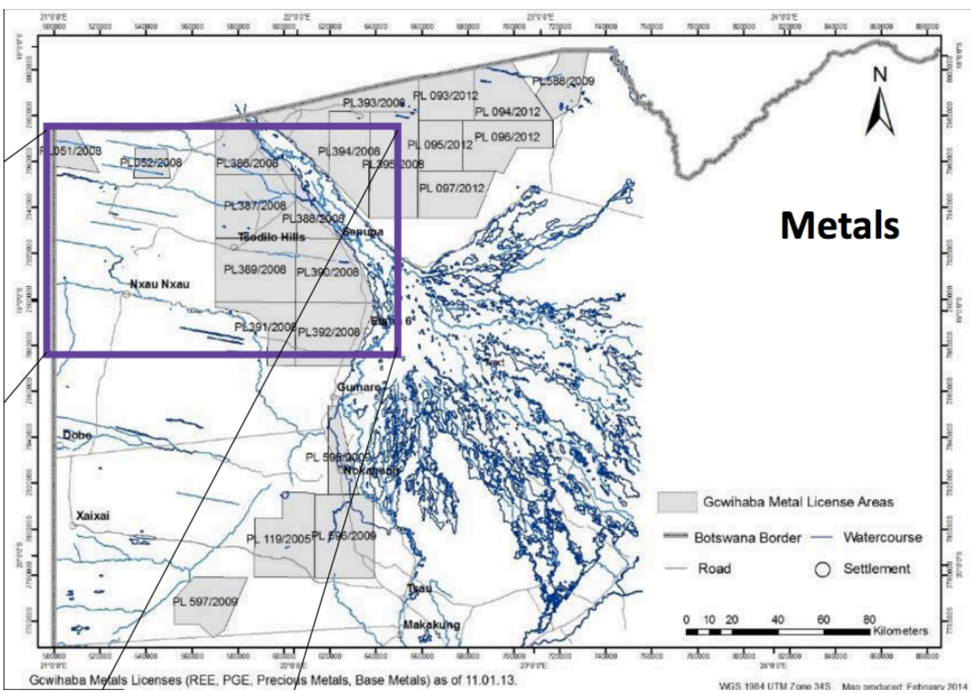
Investment Thesis for Tsodilo Resources

Tsodilo Resources is headquartered in Toronto with operations in Botswana. The company has been in Botswana since the early 2000's but was exclusively focused on diamond exploration for the first five years of existence. However, even as Tsodilo's exploration team scoured the northern part of the country for years, the drilling never yielded that big Botswana diamond discovery for which management hoped.

The silver lining is that the company's exploration efforts revealed a previously unrecognized magnetic complexity that looked highly promising for a base metal deposit. CEO James Bruchs decided to pivot and applied for metal licenses around 2007. Follow up drilling by Tsodilo has since discovered the multi billion tonne Xaudum Iron deposit, which is currently 100%-owned by the company and under development. Additionally, in April 2013, the company signed a JV agreement with copper giant First Quantum Minerals ("FQM"). The agreement stipulated that FQM could earn up to a 70% interest in any copper deposits discovered within Tsodilo's land holdings. The agreement works well for both parties: Tsodilo provides access to the Botswana land holdings that they have accumulated over the past 10 years, and FQM provides financing and copper exploration expertise. The success of this JV partnership will be revealed over the upcoming 12 months.

Tsodilo currently has 35 employees active in Botswana. The management team is headed by CEO James Bruchs. Bruchs is all-in on Tsodilo – he owns 7% of the company and has been CEO of TSD since 2002. Bruchs takes great pride in the contrarian approach that TSD has taken (i.e. exploring in Botswana before anybody else was and purchasing company drilling rigs when leasing was in vogue). The company itself has extremely high insider ownership, with 58% of outstanding shares held by management, employees, directors, institutional shareholders (including the International Finance Corporation), and First Quantum Minerals. The company has an extremely tight share structure, with roughly 40M shares fully diluted. As TSD advances development of the Xaudum Iron Property and furthers grassroots exploration efforts, the company's burn rate is between $2-3M annually. This is very reasonable given Tsodilo's $40M market capitalization, resulting in minimal dilution for existing shareholders.

While the majority of Tsodilo's cash burn is going towards the Xaudum Iron Project, Tsodilo is very much a Botswana prospect generator. The below map shows Tsodilo's extensive metal prospecting licenses in the Okavango Delta Region. First Quantum owns the rights to any precious metal, base metal, or rare earth deposit found in Tsodilo's land holdings, while Tsodilo is free to explore for diamonds, uranium, and iron ore. The company is currently conducting grassroots exploration for all of these resources, with an eye to farm out any promising discoveries to a larger player. These efforts include surface sampling, core sampling, ground magnetics measurements, airborne surveys, and eventually drilling in the coming quarters. This drilling is done very economically, made possible by management's decision to purchase in house drilling rigs. Keeping in mind that the vast majority of drilling expenses currently go to the Xaudum Iron Project, Bruchs explained that the company spends $2M "in house" to drill what would cost them $6M with a contractor.

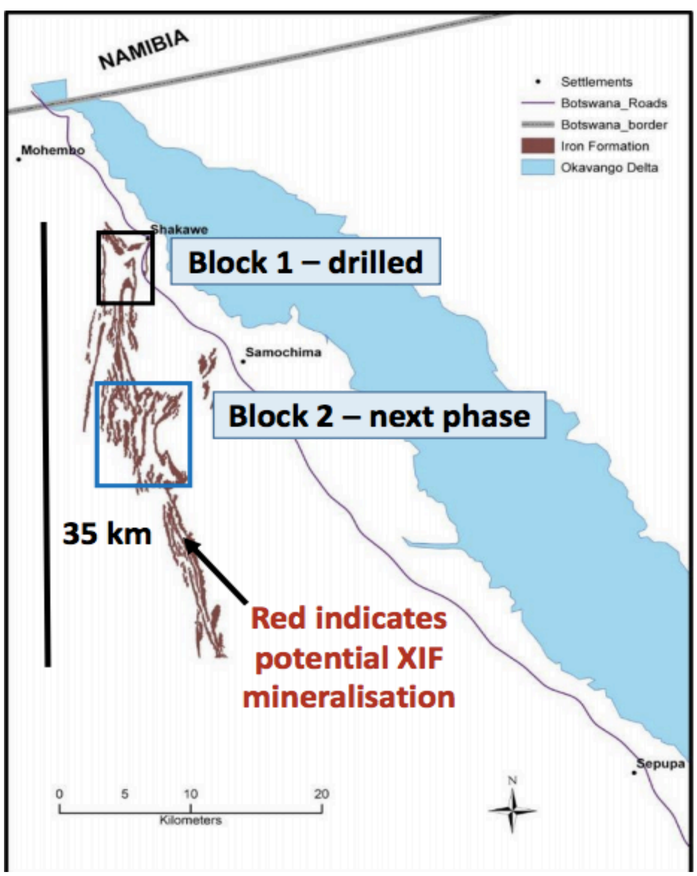


As of now, the market is not ascribing much value to Tsodilo's prospect generating capabilities (even with their recent success in getting $15B First Quantum Minerals involved). However, given the promising geology of Tsodilo's land holdings and the strategic advantage of company-owned drills, there is a real likelihood that Tsodilo can create further value aside from the Xaudum Iron story and FQM partnership. The progress will likely be slow for the time being, but I have hope that the company will be able to double or triple their grassroots exploration expenditures in 2015.

(Once the market has become fully aware of the homerun potential of the FQM Joint Venture, raising larger sums of money will become much easier for TSD management.)

The majority of Tsodilo's current market capitalization can be attributed to their Xaudum Iron discovery. This project is 100%-owned by the company, as the First Quantum Minerals JV agreement specifies that Tsodilo has full rights to any iron ore found on the company's properties. The project was recently discovered by the company and has been brought into development, with over 182 holes having been drilled over the past few years. The company expects the Xaudum project to ultimately have a massive resource of 5-7 billion tonnes of iron ore. Bruchs estimates that the company has to drill 100 more holes to define a 1.5 billion tonne resource. At the company's current annual burn rate of $2-3M, TSD can drill ~60 holes a year. I look forward to seeing this resource sometime in 2015.

The Xaudum Iron Project is a magnetite iron deposit. The average grade of all mineralized drill intersections thus far is 29.4% iron ore. Company metallurgical tests have confirmed that all mineralized units are capable of creating premium grade magnetite of >68% Fe after processing. The below map shows that the majority of the formation has yet to be drilled. A maiden NI 43-101 Mineral Resource Estimate for Block 1 will be released imminently, with Block 2 drilling to commence in Q3 of this year.



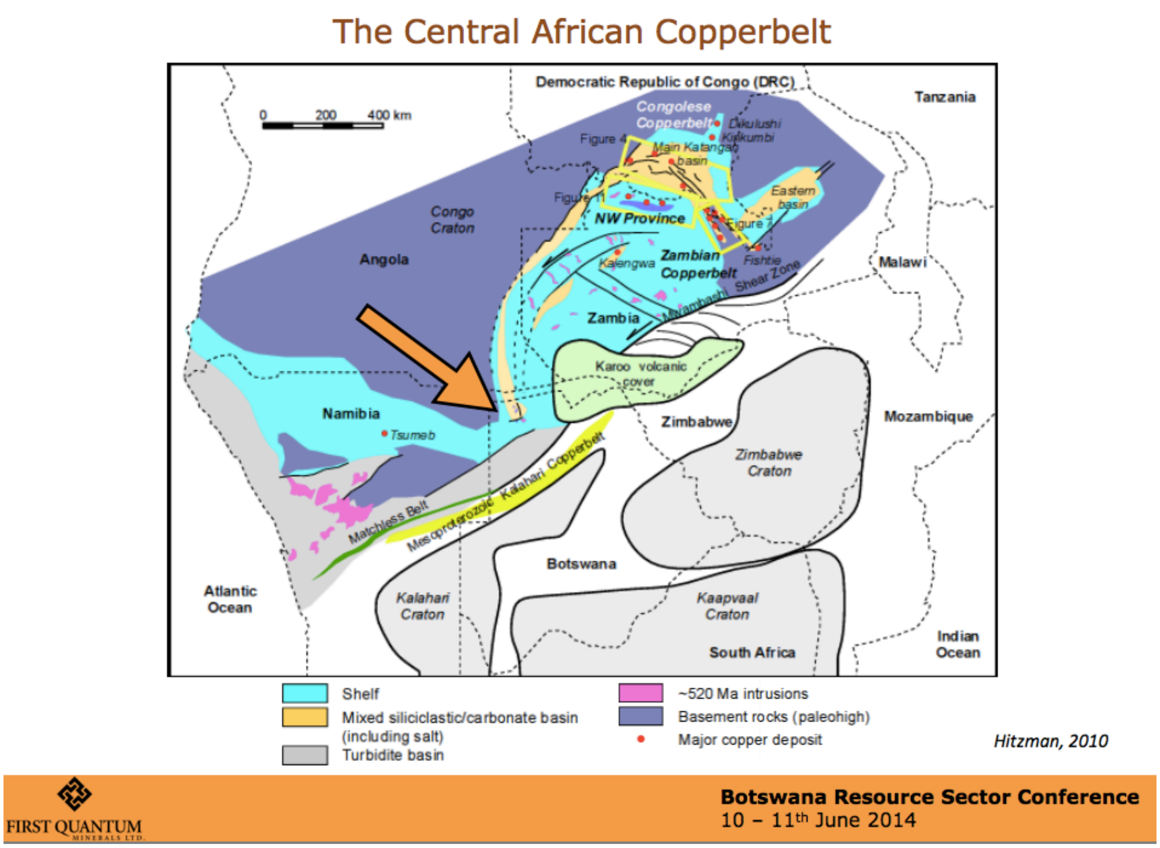
Given the size and early stage of the Xaudum project, it will take multiple years for this deposit to be fully developed and many millions of dollars. Bruchs is convinced that the time and effort will be worth it, largely due to the burgeoning steel industry in Gaborone (Botswana's capital). Currently Botswana produces a minimal amount of premium steel, but the government is keen to spur steel production in the nation's capital. Over the recent years there has been a significant amount of thermal coal discovered in Botswana (a crucial input in high-quality steel), prompting Indian steel giant Jindal to purchase a Botswana thermal coal deposit within the past year. Tsodilo's plan is to ship their iron ore by rail to Gaborone as a feedstock for the anticipated increase in steel production. The recently announced Trans-Kalahari Railway line, scheduled for completion in 2019, will serve as a means for Tsodilo to both supply Gaborone and export excess iron ore production out of Botswana.

The timeliness of these transportation plans remain a risk factor for Tsodilo and needs to be monitored going forward. While there are many worse problems to be had, it's quite possible that Tsodilo might discover "too big" of a deposit over the next few years (in terms of the necessary transportation infrastructure). In this case, a scaled ramp up may be necessary. An additional risk factor is the price of iron ore. Since Xaudum is a hematite deposit, the project won't be viable at significantly lower iron ore prices. However, as long as prices stay near $100, the Xaudum deposit provides immense strategic value to both the company and the Botswana steel industry. The Xaudum project has the potential to add $4-5 to TSD's share price (currently at $1.30) if they are able to successfully continue development or find a JV partner to take over funding responsibilities.

The most exciting piece to the TSD story is the recent copper joint venture agreement that the company signed with First Quantum Minerals in April 2013. FQM is a giant in the copper world and has had success bringing massive, high-grade projects located in remote jurisdictions (such as Zambia, Mauritiana, Panama, Peru, etc) into production. FQM is the ideal company to be conducting a copper exploration campaign on TSD land holdings and James Bruchs has stated "We are absolutely delighted to announce First Quantum as our strategic partner. They are a world-class mining company with great financial strength and specific expertise in exploration for African Copperbelt type base metal targets gained from their mining operations in Zambia….Having First Quantum's experienced exploration team from Zambia moving exploration on our ground forward is as good as it gets. This joint venture will allow for aggressive exploration for world-class base metal deposits on our licensed areas. In addition, First Quantum's equity investment will enable Tsodilo to accelerate the exploration and evaluation of our Xaudum iron formation project as well as continue our kimberlite exploration. First Quantum's involvement will allow us to deliver results from our metals projects to the market sooner than we could have without the help of our new strategic partner."

First Quantum Minerals raised their exploration threshold to 3 billion tonnes of copper in 2013. Considering that they have spent close to $8M exploring Tsodilo's landholdings for copper since August 2013, First Quantum believes that there may be a copper formation of at least this size in northern Botswana. Another $9M in exploration expenditures gets First Quantum a 70% stake in the joint venture. The remaining 30% is very valuable for Tsodilo because, if FQM finds what they are looking for, TSD's stake will be worth hundreds of millions of dollars.

FQM is currently awaiting the results from 200 shallow geochemical holes whose purpose is to map the bedrock for rock type and alteration. A new line of stratigraphic holes is also underway. The last remaining data set is a gravity survey now underway with results expected by the end of July. Only then will FQM be in a position to study the entire data set to see if the general geological model remains intact. If it does, FQM will look for specific drill targets and we can expect first drilling by September of this year. The below graphic is taken from a recent First Quantum presentation. The large yellow arrow indicates the possible extension of the copperbelt into northwestern Botswana.



The market is not currently assigning much value to Tsodilo's JV Partnership with First Quantum Minerals, as the copper system is only conceptual at this point. This will not be the case for too much longer – FQM is expected to release the first drill results from Botswana sometime in the second half of this year. In a home-run scenario, First Quantum will be able to delineate a mutli-billion tonne copper deposit over the upcoming 24-36 months. An economic copper deposit of this size is worth billions of dollars and would see Tsodilo's share price skyrocket to double digits. According to Bruchs, First Quatum management has called Tsodilo's land holdings the leading exploration target for FQM globally. Quite honestly, given the immense success of First Quantum's exploration team over the past decade, I'm surprised that the market isn't giving this JV partnership a larger speculative premium.

In conclusion, Tsodilo has multiple catalysts taking place over the upcoming two quarters. In the next few weeks, the company expects to release a NI 43-101 compliant resource estimate for the 100%-owned Xaudum Iron Project. Additionally, FQM will be reporting the first drill results from the copper exploration program occurring on Tsodilo land holdings. If FQM is able to confirm the existence of economic copper, then the Partnership will potentially return 10x on our original investment. If the copper exploration is a bust but TSD is able to successfully develop Xaudum, a triple or quadruple is feasible over the upcoming 2-3 years. It is important to remember that TSD still needs to raise $2-3M per year in order to advance the Xaudum Iron Project in a timely manner and continue grassroots efforts. (The company still needs to raise $1.7M more this year.) The good news is that the copper exploration is being fully funded by First Quantum so, even if Tsodilo management is never able to raise another dime, the company will at least maintain their minority stake. That is the beauty of a carried interest play.

Tsodilo's Margin of Safety

As Tsodilo is an early stage exploration/development company located in a single jurisdiction, there is inherent risk with their operations when compared to other Partnership holdings (although there is significantly more upside as well). Nonetheless, it is any smart management team's job to minimize risk and Bruchs & Co have done their best to do so. Due to Tsodilo's multi-pronged approach, strong shareholder base, and minimal funding needs, the company has a reasonable Margin of Safety at this current valuation.

Tsodilo's multi-pronged approach (as a prospect generator, as an iron ore development company, and as a carried interest copper play) affords the company a Margin of Safety. Each of these focuses has the potential to generate tremendous value for the company, and the company only has to succeed with one of these to generate outsized returns. Much of the company's current market cap can be attributed to their Xaudum Iron Project, but in 6 months we very well may find that the copper JV alone is worth the entire current valuation. It will take longer for Tsodilo to create that type of value through new prospect generation. However, the combination of the company's fully-owned drilling rigs and experience with Botswana exploration mean that future diamond, uranium, and/or iron ore discoveries are a distinct possibility. As TSD continues to make progress on each of these fronts, the likelihood of a dramatic share decline from current levels is reduced.

Tsodilo's current valuation is also supported by a dedicated shareholder base. Notable shareholders include CEO James Bruchs (7%), Director David Cushing (8%), Azur LLC (16%), Firebird Management LLC (3%), First Quantum Minerals (8%), and the International Finance Corporation (15%). Aside from FQM, all of these parties have been involved for multiple years. There is unlikely to be any major selling in the near term due to the imminent catalysts listed above. These shareholders have already showed tremendous patience thus far and will be waiting on the edge of their seats for the FQM results. A positive result would immediately vindicate those who have stuck around, and in the meantime TSD's downside will be very limited.

The final factor is Tsodilo's modest funding needs to continue advancement of the Xaudum Iron Project and grassroots exploration efforts. (Remember that the promising copper exploration efforts are fully funded by FQM.) As I stated earlier, Tsodilo management took the unusual step of purchasing drilling rigs instead of leasing. While the company felt the short term pain of paying upfront for the rigs, it has ended up being an excellent decision – affording the company flexibility and the ability to drill at a third of the expected cost. Bruchs believes that the company needs $2-3M annually to properly move forward development. Considering the Tsodilo's ~$40M market capitalization, this seems achievable and will not be particularly dilutive for existing shareholders.

It is clear that Tsodilo has immense upside potential between its prospecting efforts, Xaudum Iron development project, and First Quantum Minerals copper JV. Just as importantly, there are multiple catalysts over the upcoming two quarters which will confirm the viability of Tsodilo's various efforts. However, if immediate validation does not occur, I have confidence that Tsodilo's multi-pronged approach, strong shareholder base, and modest funding needs affords the company a reasonable Margin of Safety at a $40M valuation. I look forward to updating you on Tsodilo's progress in Jan 2015 and feel confident that the share price will be markedly higher than the current $1.30.

Past Featured Investments

Western Lithium Company (TSE:WLC)

Featured In: **January 2014**
Partnership Average Cost per Share: **$0.24**
Current Market Price (July 15, 2014): **$0.54**

Since I wrote about WLC six months ago as the Partnership's Featured Investment, the company has been on fire. Remember that given the unique properties of WLC's Kings Valley project, the company is on track to produce both OrganoClay and lithium carbonate in the upcoming years. However, the hallmark of H1 2014 has been the intense speculation regarding Tesla's gigafactory, which may very well be located next door to Kings Valley in Reno, NV. This led to a share price spike of up to $0.90 per share in early April 2014. The company has leveraged this dramatic spike in investor interest to raise $13M in capital over the past six months (the remaining $4M from Orion and $9M from a May PPM @ $0.58). This brings the company's treasury to a healthy $15M. It is remarkable that the company has increased its treasury (in January 2014 it stood at ~$12M), even as it continues construction on both (a) the OrganoClay manufacting plant in Fernley, Nevada and (b) the lithium demonstration plant in Germany.

The OrganoClay operation is months away from providing near term cash flow, a luxury in bear markets. The company is currently in Phase II of construction and, on May 22nd, announced that all necessary permits have been received to begin commercial production in Q3 2014. According to CEO Jay Chmelauskas: "We currently have approximately 3,000 tons of excavated Hectorite clay that is stockpiled and ready for the commissioning of our Fernley Hectatone manufacturing facility…Once the Hectatone plant construction is completed by the end of summer, a gradual production ramp-up is expected in the fall to match our planned product sales." I expect news flow in the near future announcing the identity of one or more Hectatone offtake partners. (An offtake agreement is where a producer of a resource and a buyer of a resource agree to purchase/sell portions of the producer's future production.)

Meanwhile WLC's ambitions to produce lithium carbonate remain well on track. As WLC will be the first to produce lithium carbonate from hectorite clay, the success of the Germany-based lithium demonstration plant is paramount. In late May, the company announced that "First calcination of our lithium ore is scheduled to commence in July, and the lithium plant is scheduled to be operational for potential strategic investors to visit in October and November, 2014. The plant will likely continue trials into early 2015." This plant is important both to (a) demonstrate to potential off-take partners the viability of lithium extraction from Hectorite clay and (b) provide data for the Feasibility Study, the final technical study needed before construction can commence. My expectation is that WLC will release their lithium

Feasibility Study by the end of 2015. Assuming that financing is readily available upon completion of the Feasibility Study, the company should be able to produce 13,000 tpa of lithium carbonate by the end of H1 2016 and double this to 26,000 tpa by the end of 2018.

Phoscan Chemical Corp (TSE:FOS) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2013**
Partnership Average Cost per Share: **$0.29**
Exit Price: **$0.32**

Over the past six months, the Partnership has fully liquidated its position in FOS. The reasoning was simple: Phoscan has turned into a cash shell making no advancements on any properties. Put simply, I would much rather hold cash myself than own a company where the executives are paying themselves for holding cash.

The Partnership invested in the company anticipating either (a) significant progress on the Martison Phosphate project located in Ontario, Canada or (b) FOS deploying its $40M+ in cash on a promising prospect. Instead the company has shelved the Martison Project and resisted putting any of its "money to work", irrespective of the opportunistic bargains to be had in today's market environment. The company's G&A expenses are also high relative to the amount of work being done.

That being said, when one considers the Partnership's track record and the fact that FOS has been a holding from Day 1, this wasn't a bad investment. This supports my conviction that companies with high working capital positions relative to their market capitalizations are low risk investments. It's a shame that Phoscan wasn't able to capitalize on either Martison or its outsized cash position. However, the liquidation of this position at above full purchase price has allowed me to build up sizeable positions in more promising phosphate plays.

South Boulder Mines (ASX:STB)

Featured In: **July 2012**
Partnership Average Cost per Share: **$0.50**
Current Market Price (July 15, 2014): **$0.17**

In April 2014, I received mixed news from CEO Paul Donaldson regarding STB's Definitive Feasibility Study. The negative aspect is that the DFS (the final necessary report before construction can commence) will not be completed until 1H 2015, while I was expecting the release to be mid–2014. This substantial delay is due to management's decision to completely rewrite the mine plan that was devised by previous management. The silver lining to this delay is that the project's already robust economics will undoubtedly be improved upon when the DFS is released (more below). The Partnership will continue to hold STB until the DFS is released due to (a) the highly likely improvement of the project's economics and (b) STB's undervaluation compared to development rival Allana Potash (TSE:AAA).

While current STB management did a fantastic job of discovering the impressive Colluli Deposit, they made some tactical errors in the later stages of the mines development. The most glaring of these was their decision to include only sylvinite rock (16% of the total resource) in their previous studies, including the PFS. While this may have saved time in advancing the mine through development, it ignored a large quantity of economic Carnallitite and Kainatite rock. This stunted the project's economics to a large extent. As explained in a recent STB new release: "By processing the carnallitite and kainitite mineralisation in addition to the sylvinite, the project has the potential to significantly reduce operating costs. This is because the carnallitite and the kainitite material would be considered as ore rather than waste, meaning the stripping ratio will be cut substantially. This approach would also significantly extend the mine life due to the expanded resource base." Additionally, Donaldson indicated to me that an initial CapEx of ~$400M is a distinct possibility. This is huge news considering that the company's previous CapEx estimate of ~$700M is in itself tiny relative to typical potash mines. This improvement in both initial CapEx and OpEx makes me believe that this already economic project will look a lot prettier when the comprehensive DFS is unveiled to the market.

Over the past six months, Allana Potash (another Partnership holding and STB's potash rival from neighboring Ethiopia) made great strides on their development project by securing strategic financing from Israel Chemicals. In fact, after receiving $25M in early 2014, ICL's controlling shareholder said in May that a fertilizer production plant will be fully constructed "within a year" and that potash from the Dallol Mine will be used as an input in 2015. This is a positive indicator for potash mining in the region and also a good benchmark to judge STB's relative value. Allana currently has a $100M IPV for their Dallol Project (market capitalization minus cash), while South Boulder's IPV is roughly $10-12M. While STB is a year behind AAA and has yet to find a strategic partner, this 10x deviation does not seem justified. At the very least, STB is relatively undervalued compared to AAA and seems to have justifiable upside if they are successful in releasing their DFS and securing strategic financing over the next 12 -18 months.

The combination of the Colluli Project's additional upside and the market's current valuation of STB justify waiting for the company's Definitive Feasibility Study. However, there will be a strict deadline of July 1, 2014 and, if the DFS hasn't been released in the timeframe Donaldson indicated, the Partnership will liquidate its STB holding. Over the next six months, there will be minimal news flow from the company – as the multiple consultancies hired for the DFS diligently push through their work. There is a slight risk that the company will have to raise up to $3M in order to finish the DFS (likely in Q1 2015). This should result in minimal dilution, given that the company's current market capitalization doesn't erode significantly between now and then.

Northern Graphite Company (CVE:NGC)

Featured In: **January 2012**
Partnership Average Cost per Share: **$0.97**
Current Market Price (July 15, 2014): **$0.75**

Northern Graphite Company (with its Bissett Creek property in Ontario, Canada) continues to be a Partnership holding. Northern Graphite remains an advanced development company with no production - the next step for the company is to receive mine financing and begin construction. The past six months have been disappointingly quiet –there have been no off-take agreements, no financing arrangements, and no joint venture partnerships to speak of. NGC still remains the world's most advanced graphite development project (no other company has completed their Feasibility Study AND has received full mine permitting), but the company needs to begin construction soon to maintain their first mover advantage.

In late June, NGC did announce an updated PEA presenting an expansion case with twice the capacity as the original mine plan. When evaluating the economics of development projects, I look at three different measurements, and the updated PEA passes with flying colors. The first views the project's NPV in relation to the project's initial capital expenditures and the current enterprise value (NPV > Startup Capital + EV). According to the June study, NGC has an NPV of $265M, EV of $32M, and requires an initial investment of $135M. The second looks at the payback of initial CapEx once the project reaches production (a payback of 3 years or less is ideal; NGC's payback is expected to be 2.5 years with the expansion case). The third looks at the project's Internal Rate of Return (an IRR of >25% is ideal; NGC's Bisssett Creek IRR is 31.7%). The project seems to have a high likelihood of reaching production based on a holistic reading of the three measurements.

Northern Graphite also presents relative value when viewed against its closest competitor, Quebec-based Focus Graphite. As of July 15th, Focus Graphite's Lac Knife project had a 40% higher IPV than Bissett Creek. Interestingly, Focus Graphite released a Feasibility Study within days of NGC's updated expansion case PEA. After looking through the numbers, the two projects seems very similar – with the main difference being a 20% higher CapEx and a 20% higher NPV for Focus. The IRR and payback periods are similar, though NGC edges out Focus in both departments.

It is true that Focus Graphite was able to ink an off-take agreement with an unnamed Chinese industrial conglomerate in December 2013. This is something that NGC has yet to accomplish. However, the details are still murky and a graphite price has yet to be determined in the 7 months since the agreement. The off-take is an advantage that Focus has over NGC, but the agreement itself is not worth the IPV premium. Given the projects' similar economics, NGC offers relative value when compared to its closest graphite peer.

The Partnership has been patient with our NGC investment (which has been a holding since inception in Sept 2011). However, it is important for the company to capitalize on their first mover status and advance Bissett Creek into construction within the upcoming 2-3 quarters. My expectations are that the company will obtain project financing by the end of 2014 and begin construction, at the very latest, in Q1 2015. If the company is able to meet these deadlines, then commercial production will begin in Q1 2016. With more details expected from Tesla in the upcoming months regarding "the gigafactory", I am hopeful that NGC can leverage the Tesla-mania and secure the financing necessary to take Bissett Creek to production. However, if the company is not able to commence construction within my timeline, then the Partnership will liquidate NGC in Q2 2015.