



To: MJG Capital Limited Partners

From: Matthew J. Geiger

Date: January 31, 2015

Subject: 2014 Second Half Review

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

6 Month Performance:

The MJG Capital Fund, LP (net of all fees and expenses)	(20.59) %
S&P 500	5.03 %
S&P/TSX Venture Composite Index	(32.36) %

1 Year Performance:

The MJG Capital Fund, LP (net of all fees and expenses)	(6.98) %
S&P 500	11.39 %
S&P/TSX Venture Composite Index	(25.37) %

Performance Since Inception (9/1/11):

The MJG Capital Fund, LP (net of all fees and expenses)	(69.56) %
S&P 500	68.91 %
S&P/TSX Venture Composite Index	(61.59) %

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 seventh semi-annual letter. The Partnership was formed forty 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.

After a hot first half of the year, 2H 2014 was a huge disappointment for both the Partnership and the resource industry at large. From early August through mid-December, both resource equities and their underlying commodities plunged relentlessly, with investors continuing to vacate the space en masse. Meanwhile, the S&P 500 continued its march upwards – making this a doubly painful period for both myself and the Partnership's LPs.

That said, there are two key takeaways to keep us optimistic going into 2015 and beyond. The first is the continued divergence between Partnership-specific holdings and the resource industry at large. This is clear when comparing the 6 month and 1 year performance of the Partnerships to that of S&P/TSX Venture Composite Index. (This bifurcation is also demonstrated in the charts included in the *Market Outlook*.) This should give Limited Partners confidence that we are selecting the best (or least bad) companies in the resource space, even though the industry as a whole sucks right now.

The second takeaway is that the more painful and drawn out this bear market becomes, the more long-lived and powerful this recovery will be. As Rick Rule likes to say, paradoxically "the best cure for high prices is high prices; and the best cure for low prices is low prices". The relative cheapness of commodities across the board (when compared to the past 5 years) will eventually spur demand growth. At the same time, supply will become constrained as higher cost producers shut down due to the economic realities presented by low prices. The eventual effect of these twinning phenomena has always been a strong move upwards for both commodities and their underlying equities. I am confident that the Partnership's 20 current holdings are among the best in the resource space and that we will catch this eventual reversal flush.

Until then, the Partnership has been structured to withstand the pain and not implode through withdrawals when the going gets particularly tough. Right now is one of those times. We have to remember that we are invested in one of the most cyclical business there is; the only way we can make this work is through extraordinary patience. While the Partnership's current returns up to this point have been stomach churning, we will be thankful that we stuck our thesis by the time the original partner's lock up expires in 2021.

The Partnership 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 this letter’s *Market Outlook*, I discuss a few points of interest from the past 6 months: (a) high profile exits from the resource space, signaling that we are in the late stages of this bear market, (b) the ramifications of November’s US/China climate accord on natural gas, solar, wind, and nuclear, and (c) the divergence we have seen between Partnership holdings and the resource space in general over the past 12 months.

In the *Overview of Partnership Holdings*, I break down the Partnership’s 20 current investments by (a) Primary Commodity, (b) Jurisdiction, and (c) Operational Phase.

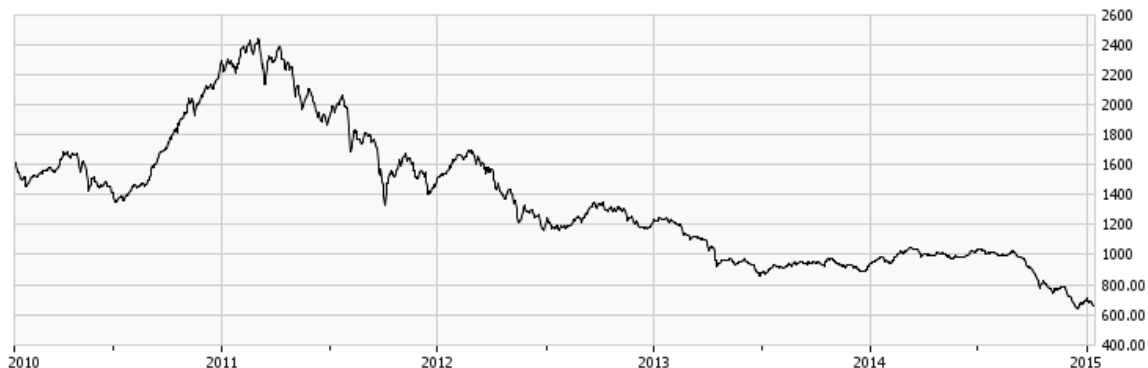
I next present with this letter’s *Featured Investment* – Nevsun Resources. Nevsun is probably the Partnership’s most easily comprehensible value investment – strong upside potential and a boat-load of cash relative to its market capitalization (aka an impressive Margin of Safety). I conclude with updates on past Featured Investments (including Western Lithium Company, which has doubled in price since it was featured in the January 2014 semi-annual letter).

Before jumping in, I’d like to extend a thank you to the numerous people that continue to make this Partnership a reality. While it has been an extremely rough ride since inception, I feel honored to be in this position and I know it will work out for all parties involved. Thank you Crederian Fund Services, BBD, and Eckert Seamans for keeping us compliant and running smoothly. Thank you John Kaiser, Roland Goodgame, Rick Rule, Mishka Vom Dorp, Rohit Millstein, John Christian Evansen, and the numerous others that have provided valuable information/advice over the years. And most importantly, thank you to the Limited Partners (both old and new) who have provided the capital to make this possible.

Market Outlook

In previous semi-annual letters, I mentioned that the TSX Venture Exchange seemed to have found a bottom in mid- 2013. As you can see in the below chart, this was not the case – with the junior market swooning to new lows in the past 6 months. This plunge affected resource equities across the board, though companies with limited working capital, high CapEx/OpEx projects, and/or specific exposure to iron ore, copper, oil, natural gas (the worst performing commodities of 2014) had

particularly nasty price declines. We are in the depths of a 4+ year bear market with sentiment for commodities and resource-focused equities at multi-decade lows.



That said, there is a silver lining to this multi-year attrition: the longer and more pronounced this decline becomes, the more powerful and sustained the recovery will be. While this reasoning is simplistic, it has proven true again and again with cyclical industries (and the natural resource industry is about as cyclical as it gets). The key for any investor is to exhibit the patience and fortitude to catch the upswing fully. As resource industry veteran Rick Rule says: “Having lived through the pain, you might as well stick around for the gain”.

Paradoxically, further cause for optimism is the continued “bailing” of well-known resource investors witnessed in H2 2014. How could established investors “bailing” from the space be construed as positive news? History tells us that the conclusion of ALL serious bear markets occurs when there is no one left to sell. Only after all possible sellers become fully exhausted do share prices begin to edge up, albeit slowly at first.

Examples of “bailing” resource investors in H2 2014 include: German newsletter writer Oliver Gross, Pinetree Capital CEO Sheldon Intewash, and even industry heavyweight Sprott Inc. Oliver Gross blinked first, when on October 30th he notified his readership that he was liquidating everything in his resource portfolio effective immediately. While he did clarify to readers that he planned to return “when the dust has settled and we see something like a bottom and a bottom-building process”, this to me smells like a panic move. I do believe that we will see him back in the space at some point in the future; however, this decision ensures that he and his readership will miss out on the beginning stages of the next resource bull market (which is often the most lucrative part).

In early November, news then broke that Pinetree Capital (an active, albeit controversial, investor in the resource market for over a decade) had shed nearly their entire resource portfolio in favor of social media companies. (Examples of Pinetree investments in the social space include POET Technologies and Keek.) This news was of particular interest to me, considering my interests in both the resource and social media spaces. This mirrors my personal experience - there is plenty of

money to be raised for social media companies, but not a lick of it available in the natural resource business. This of course can't go on forever (the iPhone for instance contains 30+ metals that allow it to function in it's magical way), but it has been a definite reality for the past 3-4 years. My contrarian nature leads me to believe the following: In the resource business, it's a great time to be a long-term investor but a bad time to be a resource professional (low salaries, minimal stock option grants, etc). In contrast, it's generally a bad time to be a social media investor but a great time to be a professional in the social space (high salaries, founder-friendly valuations, etc).

The most shocking long-term participant to "bail" from the resource space is a company I respect tremendously: Sprott Inc (TSE:SII). "Bail" in this case is a bit of an overstatement, as 40% of Sprott's portfolio still has exposure to natural resources. That said, it is shocking to me that a bellwether in the junior resource space such as Sprott now has 60% of their portfolio sitting in non-resource holdings. CEO Peter Grosskopf explained the allocation shift in early December, when he stated: "We came from a very specific background, that background needed to evolve. You don't want to have to send your best clients home as you get into a tough resource market." In my eyes, Mr. Grosskopf is plainly stating that he's making this allocation decision solely to appease his clients (most of whom do not fully understand the extreme cyclicity of the resource market), NOT because it is necessarily the correct move from an investment perspective. This of course is the danger of accepting clients without requiring them to lockup their capital for any period of time. It is a truism in the resource business that the most favorable times to invest are also the most difficult times to raise/retain capital. (The inverse is also true on the upside.) Those of us that can stomach the current pain will be in store for exceptional gains when the Sprotts of the world inevitably come tumbling back into resource equities.

Switching gears, the landmark US/China carbon agreement was massive news for long-term resource investors. Signed in mid-November, this is the first time that the United States and China have been able to reach a compromise regarding CO2 emissions. There will be ramifications from this deal for decades to come, particularly regarding natural gas, solar, wind, and nuclear energy. More specifically, the deal states that China will cap its greenhouse gas emissions by 2030 at the latest. (Previously the country had never committed to a carbon cap, only to reduce the growth rate of its emissions.) It has also promised to increase its use of energy from zero-emission sources to 20% by 2030. Meanwhile, the United States promised to cut its emissions 17% by 2020 and 28% by 2025.

I believe that this agreement validates the partnership's decision to eschew investments in hydrocarbons (coal, oil, natural gas), in favor of resources such as uranium, silver, and rare earth metals (vital in the production of nuclear, solar, and wind energy, respectively). The White House stated that "It will require China to deploy an additional 800-1,000 gigawatts of nuclear, wind, solar and other zero-emission generation capacity by 2030 – more than all the coal-fired power plants

that exist in China today and close to total current electricity generation capacity in the United States.”

These are mind-blowing numbers – for some perspective, let’s focus on nuclear. The 28 reactors that are currently under construction in China produce roughly 1 gigawatt each. Let’s assume nuclear accounts for half of the additional zero-emission generation capacity in China, or roughly 400 gigawatts from nuclear. (I think this will prove conservative as nuclear and hydro are the only forms of zero-emission power generation that are dependable all day, every day. And given that China already employs hydropower generation in the vast majority of its rivers, I think the burden will fall unevenly on nuclear power). This would mean that 400 new nuclear plants will be built by China alone in the next 15 years, while the world as a whole has roughly 440 operational reactors at current. This translates roughly into a doubling of uranium demand over the next 15 years. Needless to say, the future for the green metal looks very bright, at a time where uranium and uranium-related equities are despised by the markets.

The stories are similar for other “Clean Energy Metals” – silver, rare earth metals, and platinum/palladium are obvious examples. (Platinum and palladium are essential inputs into catalytic converters – which greatly reduce emissions from gas-powered cars. Particularly with the emphasis on CO2 emissions, platinum/palladium will continue to be indispensable going forward.) Similar to uranium, these metals are significantly underperforming at current despite the bright supply/demand pictures in the medium to long-term. These metals (and select explorers, developers, and/or producers of these metals) represent significant investment opportunities.

Below you will find three different charts. The first shows the performance of the Partnership’s current holdings for the trailing 12 months. The next represents the aggregate performance of past Partnership holdings that were liquidated due to poor operational performance. The final shows the performance of the TSX/S&P Venture Exchange. Keep in mind that these charts assume equal weightings between all respective holdings.

Over the past six months, there has certainly been a sharp decline on all three fronts, but the charts illustrate that the decline in Partnership holdings was significantly softer. The bifurcation between Partnership holdings and the resource market at large that we witnessed in H1 2014 is alive and well. This continued relative outperformance certainly does not outweigh the disappointing absolute results that we saw over the past 6 months. But it does give me confidence that when the market turns (and it will turn), the Partnership’s 20 current holdings will capture a disproportionate amount of the upside when compared to alternative companies in the resource space.

Current Holdings



Past Holdings



TSX Venture Index



Overview of Partnership Holdings

Below is an approximate breakdown of the Partnership's holdings as of January 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	
<i>Food & Water</i>	
Aquaculture*	7%
Farmland w/ Water Rights*	6%
Potash	5%
Phosphate	3%
<i>Wood Products</i>	
Sandalwood*	7%
<i>Clean Energy Metals</i>	
Silver	19%
Scandium	11%
Uranium	7%
Lithium	4%
Platinum Group Metals	3%
Graphite	3%
Rare Earth Elements	2%
<i>Infrastructure Metals</i>	
Copper	19%
<i>Cash</i>	4%

* Signifies minimal correlation to the "Mining Cycle"

Allocation By Country (Flagship Project/Operation)	
Australia	17%
United States	12%
Mexico	10%
Canada	8%
Botswana	8%
Norway	7%
Argentina	7%
Sweden	5%
Eritrea	5%
Ecuador	4%
Brazil	3%
South Africa	3%
Ethiopia	3%
Serbia	2%
Guatemala	2%
Cash	4%

Allocation By Operational Phase	
Exploration	19%
Development	46%
Production	31%
Cash	4%

Featured Investment: Nevsun Resources (NYSE:NSU)

Nevsun Resources is a mining company with both a producing mine and exploration interests, all in the country of Eritrea. At its current valuation, Nevsun shares present significant potential upside with a large-margin of safety - characteristics seen in classic value investments. Nevsun is exceptional for three principal reasons: (a) they operate the Bisha mine, one of the most profitable base metal mines in the world, (b) they have significant working capital, particularly compared to their current market cap, and (c) they are the only company actively exploring Eritrea, an extremely promising jurisdiction for future mineral discoveries. The Partnership has held NSU since February 2013, with an average cost of \$3.58 per share. As of January 15th, Nevsun was trading at \$3.50.

In this *Featured Investment* piece, I start by providing the investment theses for copper and zinc. While the Bisha mine contains economic quantities of four different metals (copper, zinc, gold, silver), these two metals produce the vast majority of Bisha's revenues for at least the next ten years. Additionally, copper and zinc are the primary metals being drilled in Nevsun's exploration activities (particularly at the Harena license).

I next profile the African country of Eritrea – the sole jurisdiction in which NSU operates (though the company does have their corporate offices in Vancouver). The stability of Eritrea both geopolitically and as a viable mining destination is essential to the success of this investment.

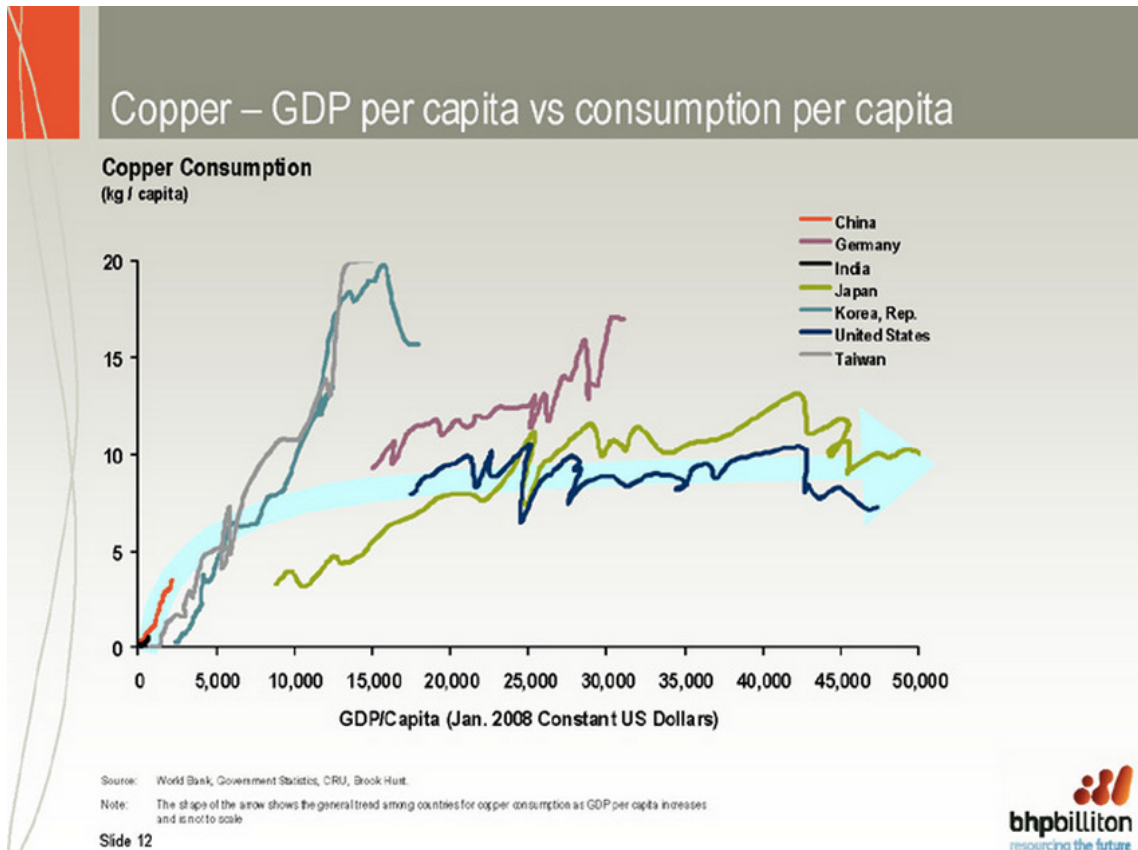
I conclude with my investment thesis for Nevsun, covering the company's background, management team, current operations, and ultimate upside as an investment. I then comment on Nevsun's Margin of Safety – with a particular focus on the company's abnormally high working capital to market capitalization ratio.

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.

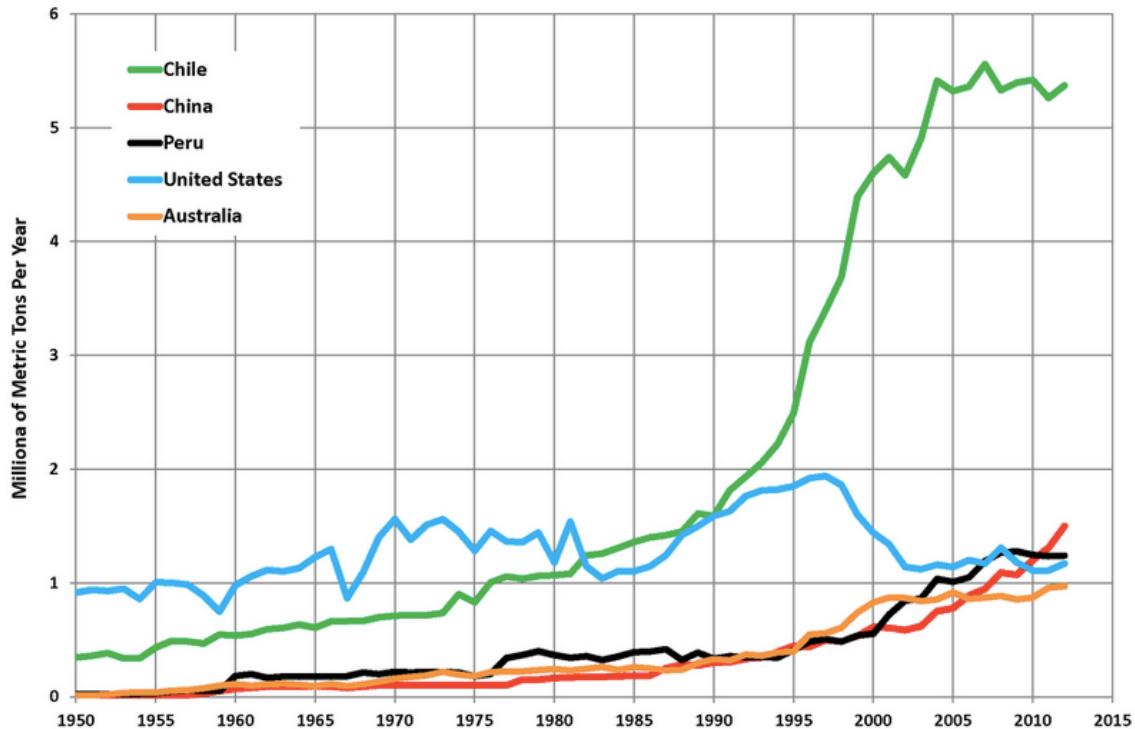
The below chart (courtesy of BHP Billiton) views copper consumption in terms of GDP per capita. You'll notice that copper consumption per capita increases exponentially in developing nations, before leveling off when GDP per capita reaches between \$20,000 and \$30,000. (Note that neither China nor India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

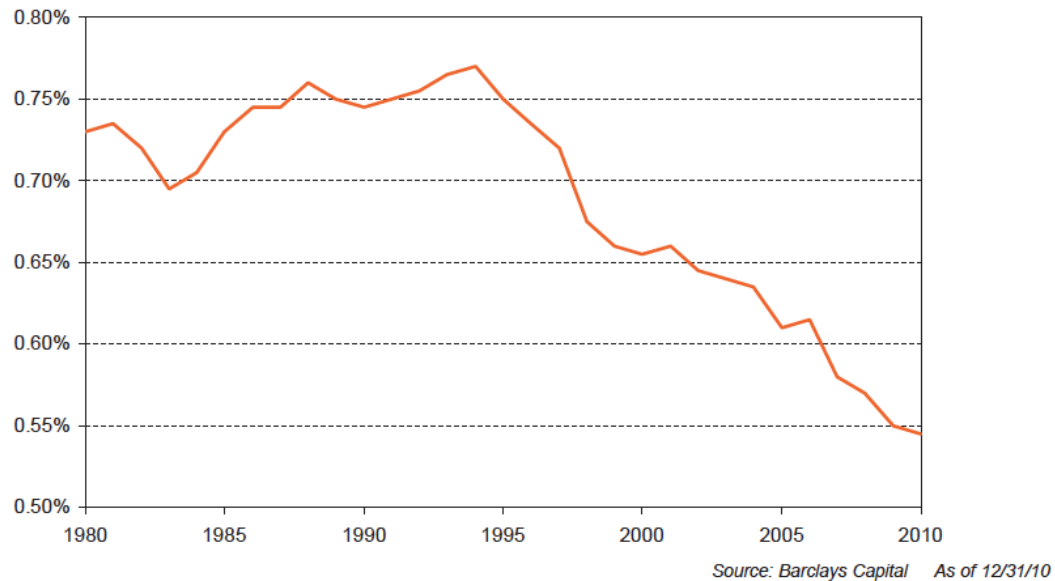
Switching to the supply side, economic copper resources are being depleted with the equivalent production of three world-class copper mines being consumed annually. The majority of this production comes from five countries, with Chile

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 3 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



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.

However, over the past 6 months copper has been one of the worst performing commodities out there – plunging roughly 25% over the period to \$2.50 per pound. The primary reasons for this decline are Chinese growth worries (despite the country’s recently announced \$1 trillion dollar infrastructure stimulus plan) and the general negative sentiment in the commodity space (before this drop, copper had performed very well relative to other commodities in this current bear market). Despite this recent history, I am still bullish on copper and anticipate that the price will be well above \$3 per pound within the next 2 years. This sudden drop will lead to an increase in demand alongside a decrease in supply – in the medium term, the price will trend upwards.

Zinc

Zinc is a classic industrial mineral, used primarily as an anti-corrosion or alloying agent. Specific use cases of zinc include: the coating of iron/steel to protect against erosion, the anode of batteries/fuel cells, as an alloy in brass (made from zinc and copper), as a white pigment in paints, as a catalyst in the manufacture of rubber, as a

fire retardant to lumber, and as a preservative for wood. Just like copper, if a building is being constructed, an airport is being built, or new water infrastructure is being installed, you can be sure that a significant amount of zinc is being consumed.

More specifically on the demand side, 50% of zinc production is used in zinc galvanizing – where thin layers of zinc are added to iron/steel to prevent rusting. The next leading use of zinc is as an alloy; the zinc is combined with copper (to form brass) and with other metals to form materials that are used in automobiles, electrical components, and household fixtures. A third significant use of zinc is in the production of zinc oxide (the most important zinc chemical by production volume), which is used in rubber manufacturing and as a protective skin ointment. There are other zinc applications (for instance in the dietary supplement field), but the vast majority of supply is consumed by the above three uses. Zinc demand has been growing at slightly less than 5% annually over the past decade.

Zinc ore deposits are widely spread throughout the world. Zinc ores are extracted in more than 50 countries. Below you will find a breakdown of zinc production per country. The majority of today's zinc production comes from VMS deposits (which almost always contain copper, lead, silver, gold, cadmium, bismuth and/or tin alongside the zinc). This type of deposit is common in countries such as Peru and Bolivia. Carbonate hosted deposits also provide a substantial amount of zinc supply, with these deposits found in countries such as the United States and Ireland.

Zinc Production and Reserves		
Country	Production	Reserves
United States	720	12,000
Australia	1,450	53,000
Bolivia	430	6,000
Canada	670	6,000
China	3,500	42,000
India	750	11,000
Ireland	350	2,000
Kazakhstan	480	16,000
Mexico	550	15,000
Peru	1,520	23,000
Other Countries	1,580	62,000
Total (rounded)	12,000	250,000
Data is in thousand metric tons. Data from USGS Mineral Commodity Summary, January 2011.		

Relative to the rest of the commodity space, analysts are quite bullish on the zinc future of zinc (which currently trades at \$0.95 per pound). Multiple mine closures are expected over the 1-2 years, and there is a dearth of late stage development projects ready to step in and supply the market. Ultimately, I anticipate in the medium term for the price of zinc to head north of \$1.30 a pound. That said, it is worth focusing on producers and near-term producers (such as Nevsun) who are economic well below the current zinc price.

Eritrea

Eritrea is located along the Red Sea coast in the Horn of Africa, bordering Ethiopia and Djibouti to the south and Sudan to the west and north. Eritrea has approximately 1,200km of coastline and two commercial ports located in both Massawa and Asseb.

Sixty percent of Eritrea's landmass is covered by the Arabian Nubian Shield. This geological anomaly also runs through Sudan, Ethiopia, and Somalia. This region is very underexplored (relative both Africa and the rest of the world) and hosts rich deposits of gold, copper, zinc, and potash.

Eritrea became an Italian Colony in 1890 until 1941 when British forces overthrew the Italian administration and developed a temporary military administration. Eritrea's food, architecture and language still bears heavy influence from Italian Colonization. Eritrea achieved independence in 1991 after fighting a long and devastating war for independence against Ethiopia. Eritrea now has a stable government led by the head of state Mr. Isaias Afwerki who was appointed by referendum in 1993.

If one searched for Eritrea on Google and skimmed through the first couple result pages, it would seem as if the country was a mix between destitute Somalia and totalitarian Zimbabwe. And it certainly has elements from both of those countries. It is one of the world's poorer countries (with half of the populace living in poverty) and has been run by the same ruler for the past two decades. It also does not accept any foreign aid and has severely limited freedom of speech.

On face value, Eritrea's refusal to accept foreign aid is reprehensible. There are millions suffering that could be *immediately* assisted if this policy (shared only by Somalia) were not in place. However, when looked upon through a historical lens, it may be justifiable. Considering that Eritrea has been abused by the western world for over a century, it makes more sense why they would not want western institutions (IMF, World Bank, etc.) providing welfare and, in the process, shaping the country. By starting from scratch without aid and development influences from

the outside world, Eritrea is putting in place a system that will tremendously benefit the entire nation in the long-run (at the expense of the immediate).

Due to Eritrea's tremendous relative mineral wealth and the tendency of the early stages of development to be based around resource extraction, the "system" referenced above is the Eritrean Mining Code. The code is both simple and creates shared interests between the government and the foreign firms supply the technology/capital. The government earns a minimum 10 percent stake in any mine, without having to pay for the stake up-front or fund exploration costs. The government also has the option to earn another 20-40 percent stake, but in order to do so must help fund exploration and development costs.

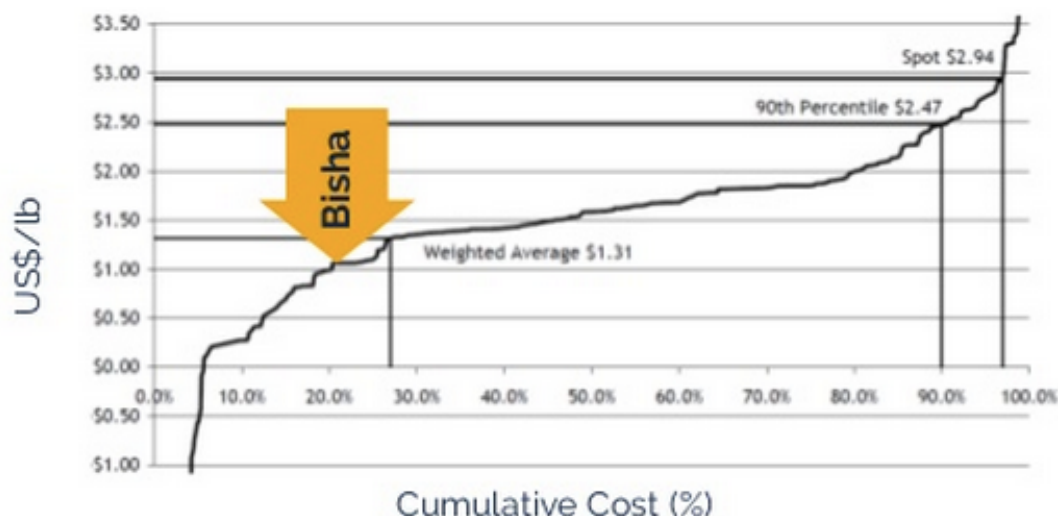
Eritrea's first modern mine commenced production in December 2010 (The Bisha Mine – which is majority owned and operated by Nevsun). During Bisha's development, Nevsun received over \$250 million from the Eritrean government to fund exploration, development, and infrastructural costs. In addition, China has been very active (both in Eritrea and north-east Africa region), most recently with an \$80 million purchase of a stake in the Eritrea's Koka gold deposit by a Chinese group. If Eritrea remains stable and fair in dealings with foreign mining companies, both parties stand to benefit greatly in the coming decades.

Investment Thesis for Nevsun Resources

Nevsun is headquartered in Vancouver with all current operations in Eritrea. The company has been active in Eritrea since 1998 and operates the only producing mine in the country. The management team has been intact for years and has done a phenomenal job with the company. CEO Cliff Davis has been in charge since 2008, just as first construction began at Bisha. (In the six preceding years, Cliff served as Nevsun's CFO.) Another key figure is Scott Treblicock, who has served as the company's Chief Development Officer since 2010 (right as first production began at Bisha). I've recently spoken to him and he provided interesting insights into Nevsun's corporate direction. These will be addressed later in the piece.

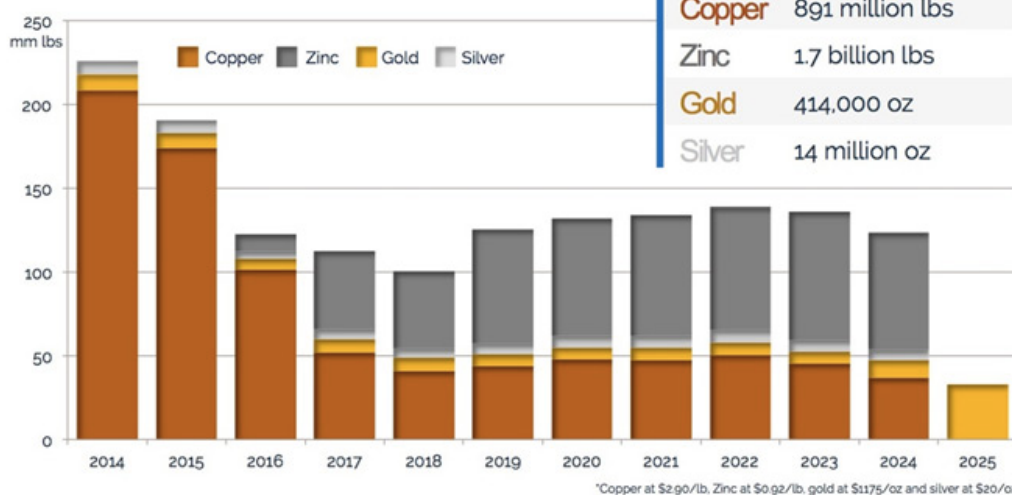
The company's primary asset is the Bisha Mine, owned 60% by Nevsun and 40% by the Eritrean government. The mine has enough contained resources to be in production for at least 9 more years. Interestingly, the company was chiefly a gold producer in their first few years of production, before switching to its current state of copper production. As you can see in the below graphic, Nevsun is well within the lowest-quartile of copper operations worldwide. Regardless of copper's recent price collapse to \$2.50, the only question that Nevsun has to answer is how much money they will make, not whether they will be profitable.

2014 C1 Cash Cost Position²



While copper production will continue to constitute 40-50% of Nevsun's revenue going forward, the company is in the process of transitioning to zinc production over the next 12-18 months. Commissioning of the zinc flotation circuit is expected in H1 2016. This expansion will be relatively cheap at \$89.5M (especially considering Nevsun's working capital hoard of \$500M+). I've included below a nice illustration of this planned transition, which has the potential to coincide very nicely with the expected increase in zinc prices over the next few years.

Copper Equivalent Payable Production*



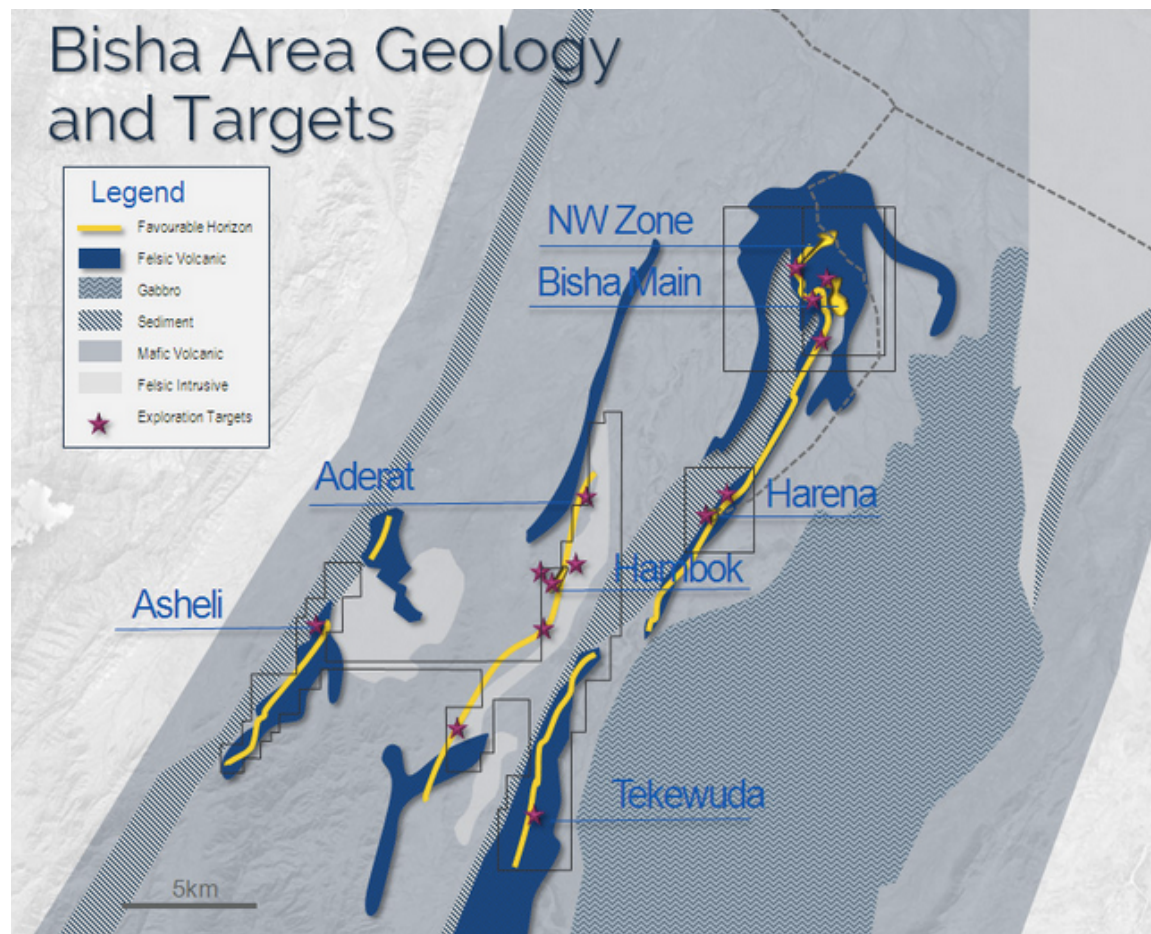
LOMPayable Metals*

Copper	891 million lbs
Zinc	1.7 billion lbs
Gold	414,000 oz
Silver	14 million oz

Even ignoring any potential opportunities beyond Bisha, Nevsun is shockingly undervalued at current prices. When they last reported earnings in late October 2014, Nevsun had a working capital balance of \$520M (that number has increased since, but we'll use it to be conservative). Meanwhile, Nevsun's current market capitalization is roughly \$660M – resulting in an Enterprise Value (EV= Mkt cap – working cap) of a mere \$140M. This is a wildly low number. For some context, I've provided below a figure from Nevsun's Q3 report. You can see that in the first three quarters of 2014 alone, the Net Income Attributable to Nevsun shareholders from Bisha was roughly \$72M. Assuming consistent production, in layman's terms this means that 6 consecutive quarters of production will return Nevsun's ENTIRE Enterprise Value, and then some. Few opportunities exist like this in the market as whole, let alone the mining space.

	Q3 2014	Q2 2014	Q1 2014	YTD 2014
Revenues	\$ 147.9	\$ 169.2	\$ 99.2	\$ 416.3
Operating income	78.1	94.9	52.0	225.0
Net income	44.6	53.7	28.2	126.5
Net income attributable to Nevsun shareholders	25.5	30.5	15.5	71.5
Basic earnings per share attributable to Nevsun shareholders	0.13	0.15	0.08	0.36
Working capital	519.0	497.8	462.2	519.0
Copper price realized, per payable pound sold	2.98	3.21	3.01	3.08
C1 cash cost per payable pound sold ⁽¹⁾	\$ 1.07	\$ 1.05	\$ 0.98	\$ 1.04

Even though Nevsun is a buy based solely on its future Bisha cash flow and massive working capital position, the company also has the opportunity for additional value creation within Eritrea. Below is a graphic of Nevsun's exploration holdings in Eritrea (beyond the Bisha Mine). The company is actively exploring all of these properties and in 2014 the company successfully completed 27,300 meters of diamond drilling, 228 square kilometers of helicopter-borne Versatile Transient Electromagnetic (VTEM) surveys, 20 square kilometers of ground and 40 borehole Transient Electromagnetic (BHTEM) surveys.



While I expect to see a PEA from Hambok sometime in 2015 (which indicates that the project is more advanced), Nevsun's highest priority exploration target is the Harena Property. This status was secured in Q4 2014, when Nevsun reported the following 4 drill results in successive news releases:

- (1) 1.82% Cu, 2.66% Zn, 0.40 g/t Au, 40.6 g/t Ag over 36.8 meters
- (2) 1.04% Cu, 3.82% Zn, 1.05 g/t Au, 28.5 g/t Ag over 38.0 meters
- (3) 1.78% Cu, 5.78% Zn, 0.53 g/t Au, 31 g/t Ag over 32.0 m
- (4) 1.10% Cu, 3.04% Zn, 0.63 g/t Au, 36 g/t Ag over 50.0 m

These are very high-grade intercepts and the lengths of 30m+ indicate that this deposit may be amenable for an underground mining operation in the medium term. Hambok and Aderat have returned similarly high-grade results over shorter (but still significant) intercepts. I am confident that Harena and some of these other exploration targets will be mined at some point. The real question is whether the economics are compelling enough to either (a) expand productions at Bisha and start shipping ore 10-20km north for processing or (b) build a second processing facility elsewhere from Bisha. Both of these options could in theory happen before 2020. If the economics aren't compelling enough, then at least one of these deposits will be used to replace Bisha main ore at the current processing facilities. This of

course wouldn't occur for at least a decade. Whether any of these deposits are ultimately fast tracked will be heavily dependent on the results of Nevsun's upcoming 2015 Exploration Program.

Despite the additional opportunities present in Eritrea, Nevsun is actively pursuing merger/acquisition possibilities elsewhere in the world. In particular, Nevsun is looking at medium sized copper/zinc mines that are already in production. The impetus for this is management's desire to gain a higher valuation on Nevsun's cash flow – the metal production of this company is valued at the rock bottom of all producers worldwide. Therefore, the company is trying to diversify jurisdictions in order to hedge investor concerns about the geopolitical stability of Eritrea. Makes sense.

That said, and take this with a grain of salt given my predisposition to binary outcomes, my belief is that Nevsun should double, triple, or quadruple down in Eritrea (instead of using their immense cash hoard to purchase a project elsewhere). I believe this for the following reasons: (a) Eritrea is still tremendously underexplored given its impressive mineral wealth, (b) the company has a head start in Eritrea given their operational foothold, and (c) Nevsun has shown it's ability to navigate through the Eritrean Mine Code and bring a project to production. Particularly given Nevsun's Margin of Safety, it would be a shame not to utilize these strategic advantages and take the riskier move – a purchase of Sunridge Gold, a purchase of South Boulder Mines, a fast-tracking of Harena, and/or the commencement of a nationwide exploration program.

Nevsun's Margin of Safety

Nevsun's chief risk is the stability of Eritrea and the consistency of Eritrea's mining policy. It's pretty cut and dry, this is an immensely profitable operation and would already have been depleted were it located in a more established mining jurisdiction. However, given Nevsun's current valuation, it is clear that the market is extremely fearful of Eritrea's medium term future. While I agree that Nevsun deserves a discount due to geopolitical risk, I feel the current discount is far too extreme.

That said, as with any investment, it is important to define the worst-case scenario and understand what that scenario would mean for you as an investor. So in this spirit, let's assume that the market is correct and within the next year the Eritrean government claims control of the ENTIRE Bisha project and kicks Nevsun out of the country to boot (no more mineral exploration allowed). How would we fair as investors in this cataclysmic scenario?

The answer is not too bad. This is due to Nevsun's extraordinarily large working capital position relative to its market cap. Under the assumption that Nevsun will never trade for less than its working capital (which is a rational assumption but doesn't always hold true), Nevsun's market cap and share prices will fall roughly

20% in the unthinkable negative outcome mentioned above before the company's market capitalization is equal to its working cap position of \$520M. While this would be an unfortunate scenario for all involved, we can be confident that the most one could lose by buying Nevsun shares at current levels is 20%. Not a bad loss, considering the 100%+ upside NSU shareholders will see with a recovery in metal prices and/or additional value creation by Nevsun's experienced team.

Another relevant, though less tangible, form of Margin of Safety is a recent acquisition offer from a credible peer. This happened to Nevsun – when in November 2014 QKR Group offered management \$1B for full control of the company. (QKR is a mining fund backed by Qatari investors, Poland's richest man, and former JP Morgan banker Lloyd Pengilly.) Share prices spiked, only to come back down to current levels when management decided to forgo the short-term cash in lieu of greater longer-term value. This particular deal didn't materialize, but it does demonstrate that Nevsun would likely receive another offer if shares fell from the current low value. Even though conventional market wisdom says that NSU is a risky bet due to geopolitical risk, the company's working cap position and recent acquisition offer provide me extreme confidence that there is minimal possible downside at current prices.

Past Featured Investments

Tsodilo Resources Ltd (CVE:TSD)

Featured In: **July 2014**

Partnership Average Cost per Share: **\$0.86**

Current Market Price (January 15, 2014): **\$0.90**

It's been a relatively quiet six months since I featured Tsodilo Resources in July 2014. Remember that the company is a prospect generator in Botswana – with copper, iron ore, and diamond interests. The Partnership is invested in TSD due to its copper exploration JV with industry heavyweight First Quantum Minerals (the progress of which will be covered in the second half of this update). However, as First Quantum focuses on the copper, Tsodilo Resources is busy with independently advancing diamond exploration and the development of their Xaudum Iron Ore Project. While the company is still advancing on both of these fronts, internal resources have been shifted towards diamond exploration since I last wrote about the company. I anticipate that this shift of focus was mainly influenced by iron ore's continued price decline and the resulting loss of investor interest in iron ore-focused stories. CEO James Bruchs has stated a desire to continue advancing both projects at full speed, but working capital realities have caused him to scale back activities at Xaudum for the time being.

There are multiple non-copper milestones expected within the year. By the end of January, diamond exploration drilling will have begun at the company's Orapa Property, with assay results expected by July 2015. Assuming a successful drilling campaign, the company will then complete Phase 1 of Bulk Sampling (expected to be completed by November of this year). The results of the initial Bulk Sampling should give TSD enough insight to decide whether it is worth doubling down at Orapa. Switching to Tsodilo's Xaudum Iron Ore Project, the company is expected to release a NI 43-101 Resource Estimate by July 2015. This report has already been delayed six months due to TSD's shift in focus to diamonds, and a further delay is possible pending the fundraising environment over the next 6 months. Assuming no further delays to iron ore development, I expect to see final drill results for Blocks 2a +2b at the Xaudum Project by the end of the year.

Tsodilo's diamond and iron ore prospects certainly provide a Margin of Safety and reasonable upside. However, the Partnership's investment in Tsodilo will live or die with the success of their Joint Venture with First Quantum Minerals. First Quantum is a \$10B company and, even more importantly, are respected for their track record developing multiple massive copper mines in "risky" African jurisdictions. They are the perfect partner. According to John Kaiser, "First Quantum (TSX:FM) has spent \$14 million this past year simply developing the database and the geological context for a target drilling program of \$5 to \$6 million next year." This \$14M expenditure

is massive for a grassroots program – equaling roughly half of TSD’s total market capitalization!

If First Quantum finds what they are looking for (a copper deposit of 3B+ pounds), Tsodilo will be valued in double digits (\$10 a share plus) due to their 20% fully diluted stake in the project. FQM is commencing the \$5-6M target drilling campaign in within the next couple months, and I expect first assay results to be announced to the market by July 2015. These first drill results are what the Partnership has been waiting multiple years for, and a positive result would be an extreme catalyst for TSD shares. It’s a wonder that Tsodilo’s share price hasn’t risen significantly in anticipation of this upcoming drill program, but thanks to this bear market there is still time to purchase shares of TSD at very reasonable levels.

Western Lithium Company (TSE:WLC)

Featured In: **January 2014**

Partnership Average Cost per Share: **\$0.24**

Current Market Price (January 15, 2014): **\$0.50**

From a share price perspective, it was a very volatile 6 months for Western Lithium Company. At the time of my last WLC update in July 2014, the company was trading at roughly \$0.50 a share. Roughly 8 weeks later, as the market caught on the tremendous progress that WLC has made over the past 18 months, the company traded at twice that price and with a market capitalization of over \$100M. However, since mid-September, WLC shares have given up nearly that entire gain and shares are now only 7% above where they were in July 2014. This decline was partially caused by the market environment, as no companies (regardless of quality) were immune from the resource industry’s swoon between early September and the end of 2014.

However I speculate that the share price decline was mainly triggered by lower oil/natural gas prices affecting investor expectations for WLC’s Organoclay Business. (WLC is the newest US-based producer of Organoclay, used as an additive in oil/gas drilling.) This makes decent sense – lower prices mean less drilling, which in turn means reduced demand for drilling fluid additives. Even with these headwinds, WLC has made decent progress over the past two quarters – announcing in August that construction had been fully completed and right at the turn of the year that their first shipment of Organoclay product was completed. I expect WLC’s Organoclay operation to be a profitable business for decades to come (due the huge size of the Kings Valley project), despite the recent price weakness.

The Organoclay operations will provide a solid margin of safety and a source of internal cash flow going forward. That said, it is essential to understand that WLC is a lithium project at heart (at least for the long-term shareholder) and will live or die as a lithium project. For instance, the initial CapEx of WLC’s proposed lithium

project is expected to be ~\$250M. This is compared to the \$10-20M WLC needed to invest before commencing Organoclay production. Additionally, in terms of best-case scenarios, an ideal WLC Organoclay operation would be generating \$10M+ in cash flow annually. Meanwhile, it is feasible for the lithium project to be generating \$150M+ within a few years of initial production. These are rough numbers indeed, but there is truly an order of magnitude difference between the scales of the two projects. This is a lithium play.

Looking forward, there are two major WLC milestones expected in 2015. The first, which I expect later in this quarter, is an announcement that WLC has successfully produced its first lithium carbonate batch at their Germany-based pilot plant. This will ensure investors that metallurgical/processing work is well on track. The second expected deliverable is a NI 43-101 compliant Definitive Feasibility Study, which should be released by the end of the year. In theory, this DFS will be the final milestone before WLC raises the \$250M needed to put the Kings Valley Project into production. Western Lithium is still on track to become a lithium producer sometime before 2017. That said, 2015 will be a pivotal year for the company and it is vital that they successfully meet the above milestones.

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**

South Boulder Mines (ASX:STB)

Featured In: **July 2012**

Partnership Average Cost per Share: **\$0.50**

Current Market Price (January 15, 2014): **\$0.19**

The past 6 months have been very active for South Boulder Mines, with more news flow than I expected. I am confident that this positive company momentum will begin to be reflected in STB's share price sometime this year. In this update, I will focus on the two most significant topics for STB: (a) mine financing and (b) the timing of the upcoming Prefeasibility and Definitive Feasibility studies.

In late July 2014 and early January 2015, South Boulder raised two separate strategic share placements with two Hong Kong-based institutional investors (Kam Lung Investment Development Company and Well Efficient Limited). This is beneficial in that STB now has sufficient working capital to complete their DFS, but more importantly the two placements indicate investment demand from non-Western sources. With the project's location in Eritrea, western institutions will likely NOT be willing to fund STB in today's market environment. This is despite the

fact that the Colluli mine is a world class deposit that would be in production (if not already depleted) had it been located almost anywhere else in the world. The size and near-surface nature of this deposit make the Colluli deposit a true geological phenomenon, but the mine won't be built without further financing. The fact that STB is attracting non-traditional investors at this stage is a promising sign.

In the July 2014 update, I stated that "there will be a strict deadline of July 1, 2014, and, if the DFS hasn't been released in the timeframe Donaldson indicated, the Partnerships will liquidate its STB holding." Due to the tremendous progress STB has made over the past two quarters and the fact that they've decided to release a PFS by February 2015, I'm willing to be a bit more flexible on the delivery of the DFS (which I now expect will be announced to the market sometime in Q3 2015). The combination of the Colluli Project's additional upside and the market's current valuation of STB (both in relative and absolute terms) justify waiting for the company's Definitive Feasibility Study.

Over the next six months, the single most important announcement will be the PFS. This is due sometime in February 2015. I will be satisfied if the PFS checks two boxes: (1) initial CapEx >\$500M and (2) an NPV @ 10% > Initial CapEx. These are ambitious numbers, but given the quality of the Colluli Project they should very attainable. Remember the major STB risk factors are the stability of Eritrea (and hence the availability of mine financing); NOT the economics of the mine itself. Assuming a successful PFS, South Boulder is geared for a very exciting H2 2015 – where I expect the release of a DFS, the completion of an Environmental Impact Assessment, and the granting of a mining license. If the company executes, from a share price perspective this should be STB's first positive year since 2010.

Northern Graphite (CVE:NGC) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2012**

Partnership Average Cost per Share: **\$0.97**

Exit Price: **\$0.80**

In late Q3 2014, the Partnership liquidated its position in Northern Graphite Company. NGC was one of our original investments when we launched in September 2011 and its unfortunate to have taken an overall loss. That said, I've decided to put the money to work elsewhere in the resource space for the following three reasons.

(1) There have only been two news releases over the past six-month, which is particularly disappointing given the release in June of the Updated Expansion Case PEA. I expected the release of the study to help NGC over the hump in terms of construction commencing, but neither of the two news releases was "mine" or "financing" related.

(2) NGC seems to be distracting itself with lithium ion battery testing. Straight from a news release in early November: "The company targets better and lower cost batteries." Why would a \$30M company with a mine under development be doing this? Tesla is already a lithium ion giant and NGC should be focused on providing graphite to those that are the battery experts. Management is either (a) slightly delusional or (b) trying to distract investors from the fact that there isn't immediate demand for this project. My intention for NGC was to be a mine, not an R&D outfit.

(3) Most importantly, I need to be true to my timelines/expectations. I stated in my last letter that, while I was pleased with NGC's recently released economics, it was time for the company to push this project forward and I would sell the company if construction hadn't commenced by the end of Q1 2015. While we are not quite there yet, the fact that there has been no hint of this project getting financed means that NGC will miss this expectation. My patience has run out. We have been a shareholder since late 2011 and NGC's DFS has been out for over two years - the company has had more than enough time to push this project to the construction phase.

This project is still one of the most advanced graphite projects out there and still has a respectable chance to make it into production this decade. That said, NGC has provided the market with plenty of information about the Bissett Creek project (DFS, updated PEA, and even a Caterpillar financing!!) but the timing doesn't seem quite right. If so, a larger end user would have made a move by now. This may change when Tesla battery plant reaches production in 2017/2018, but until then there are few too many sensational opportunities out there to continue to wait on NGC (or more accurately, wait on an end user for NGC's graphite).