To: **MJG Capital Limited Partners**

From: **Matt Geiger**

Date: **July 31, 2015**

Subject: **2015 First Half Review**

Below is set forth The MJG Capital Fund, LP's performance through June 30, 2015.

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6 Month Performance:

The MJG Capital Fund, LP (net of all fees and expenses)	(19.43) %
S&P 500	0.20 %
S&P/TSX Venture Composite Index	(3.46) %

1 Year Performance:

The MJG Capital Fund, LP (net of all fees and expenses)	(36.02) %
S&P 500	5.25 %
S&P/TSX Venture Composite Index	(34.70) %

3 Year Performance:

The MJG Capital Fund, LP (net of all fees and expenses)	(70.36) %
S&P 500	51.46 %
S&P/TSX Venture Composite Index	(43.61) %

Performance Since Inception (9/1/11):

The MJG Capital Fund, LP (net of all fees and expenses)	(75.47) %
S&P 500	69.25 %
S&P/TSX Venture Composite Index	(62.92) %

Note: All returns for MJG Capital partners are estimated and subject to the completion of an audit at a future date. 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 eight semi-annual letter. The Partnership was formed forty-six 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.

There's no beating around the bush. Things are rough right now. Here are the facts:

(a)TSX Venture Index is down 90% since start of this bear market. Bad/mediocre companies are dying and investor interest is almost nonexistent. All speculative excitement is currently occurring in tech, real estate, general equities, and bonds.

(b) Commodity prices have been trending downwards since 2011, despite decent global growth and extreme measures of QE by central banks around the world.

(c) Partnership LPs are understandably disgruntled and there will be limited investor interest in terms of new LPs until we are able to demonstrate 2-3 consecutive periods of outsized returns.

That said, it's the same tune from me– we've already endured this much pain, why not stick around a little longer for the next upturn (and of course in the meantime mercilessly cull the Partnership's portfolio so that we hold only well-managed, well-capitalized companies). While this may sound to delusional to some given our recent experience, the resource industry is an extremely cyclical one – and it's been that way for over 100 years. There will be another upturn and, judging by the severity of the current bear market, it has the potential to be massive. Those that remain patient will be rewarded.

Ultimately, it is up to myself and the Partnership's LPs whether we get to enjoy the next multi-year period of resource market gains. I am very confident that the original set of investors will see, at a minimum, their original investment by the time the 10-year lock up expires. If the beginning 2-3 years of the next upturn resemble the gains seen in 2001-2004, there is the possibility for more. And for recent and potentially new Limited Partners, prospects remain especially bright.

One of my favorite anecdotes demonstrating the bi-polar and whipsaw nature of the resource market comes from Rick Rule (and his experience with uranium development company Paladin Energy between 2000-2007). After diligent research and spending significant time with management, Rick became convinced that this company was exceptionally positioned for success. He

undertook a Private Placement at ~$0.10 and then another at ~$0.12 in quick succession.

At this point, a relatively serious bear market ensued and, within 24 months of Rick purchasing his first position, Paladin was trading between $0.01-$0.02. This equated to a roughly 90% loss on Rick's original investment.

So what did Rick do? First, he objectively looked at Paladin to determine whether his original investment thesis was still intact. After determining that the Paladin story STILL had significant potential, Rick did something that I respect him tremendously for – he took place in a THIRD Paladin Private Placement at $0.015.

What happened next? Shockingly within 48 months of Rick taking place in the Private Placement @ $0.015, Paladin's share price touched $10! Including the first two Private Placements, the whole story took roughly 7 years to play out.

Yes this is an extreme anecdote (after all, Rick made roughly 67,000% on the money he put in @ $0.015). That said, there WILL be multiple stories in the upcoming bull market that rival what happened with Paladin.

This story makes me think… Was Rick right the whole time? Was he wrong the whole time? Was he right only after the share price had hit its bottom? How would he have felt if he had liquidated at $0.015 – despite the fact that he was utterly convinced in the long-term value of the investment?

Anecdote aside, it is an unfortunate reality that over the past 6 months the Partnership underperformed both the S&P 500 and our benchmark (the TSX Venture Index) by disappointing margins.

Regarding the S&P 500, it is still my strong conviction that the current 7-year rally (while not necessarily over) has left general equities roughly 50-60% overvalued when compared to 10-year averages. I will concede that the S&P 500 has massively outperformed (a) the Partnership, (b) the TSX Venture Index, and (c) the broad resource market since 2011. I expect this outperformance to continue until it doesn't – with an inflection point likely well before 2020. And when the trend is broken, history tells us that "hard assets" will have an excellent multi-year run.

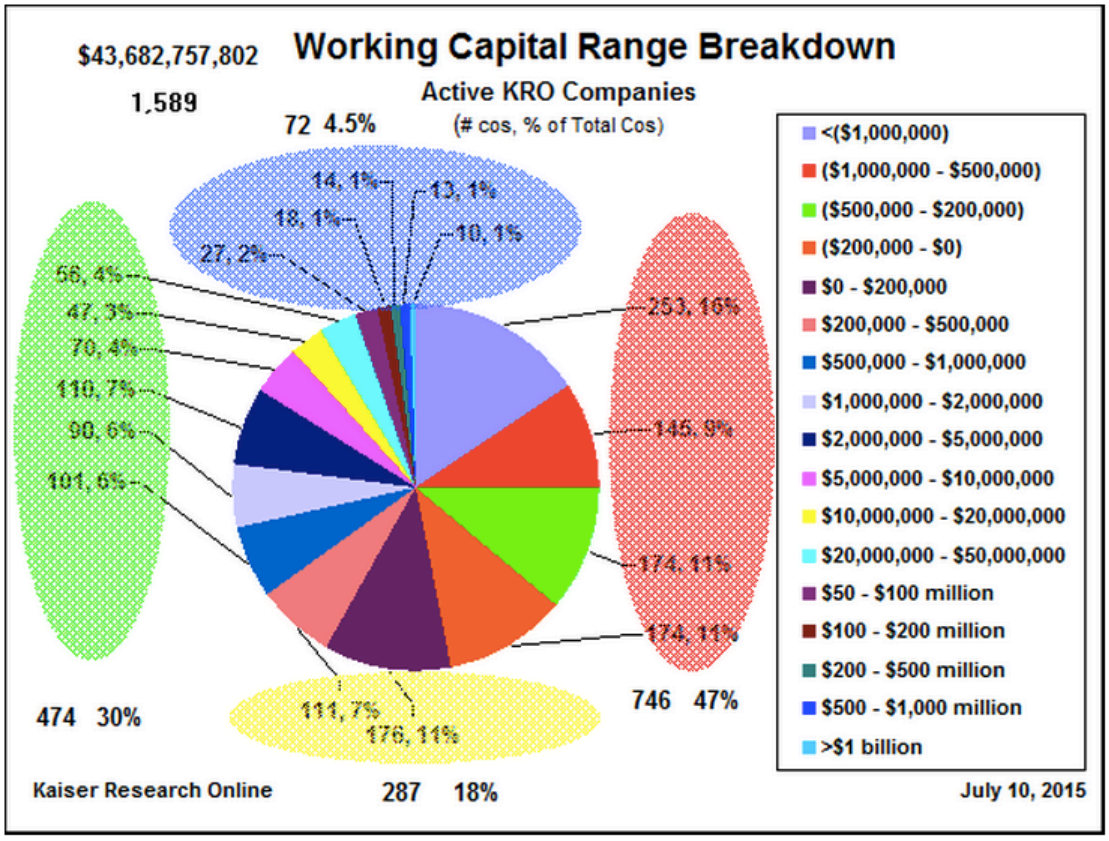
It is not lost on me that the Partnership needs to begin outperforming the broader market very soon (and by wide margins). That said, the most painful part of the last 6 months for me personally was the Partnership's underperformance of our benchmark (which we had beaten in each of the past 3 six-moth periods).

A partial explanation for this relative underperformance could be that the Partnership's current holdings have news flow heavily weighted towards the second half of 2015. Out of the holdings, I expect at least 8 of them to have "make or break"

announcements in the next 6 months – where either (a) the company "scores big" on their most recent milestone and the share price shoots up – in some cases 50%+ or (b) they report poor results or delay the announcement – which would result in the Partnership liquidating the position in the vast majority of cases. Either way, I eagerly anticipate the answers to these 8 "make or break" questions; from an investment perspective, getting an answer sooner is always better than later. Even if the news is not good, it is a prime opportunity to cut losses (or consolidate gains in some cases) and redeploy capital to more promising prospects.

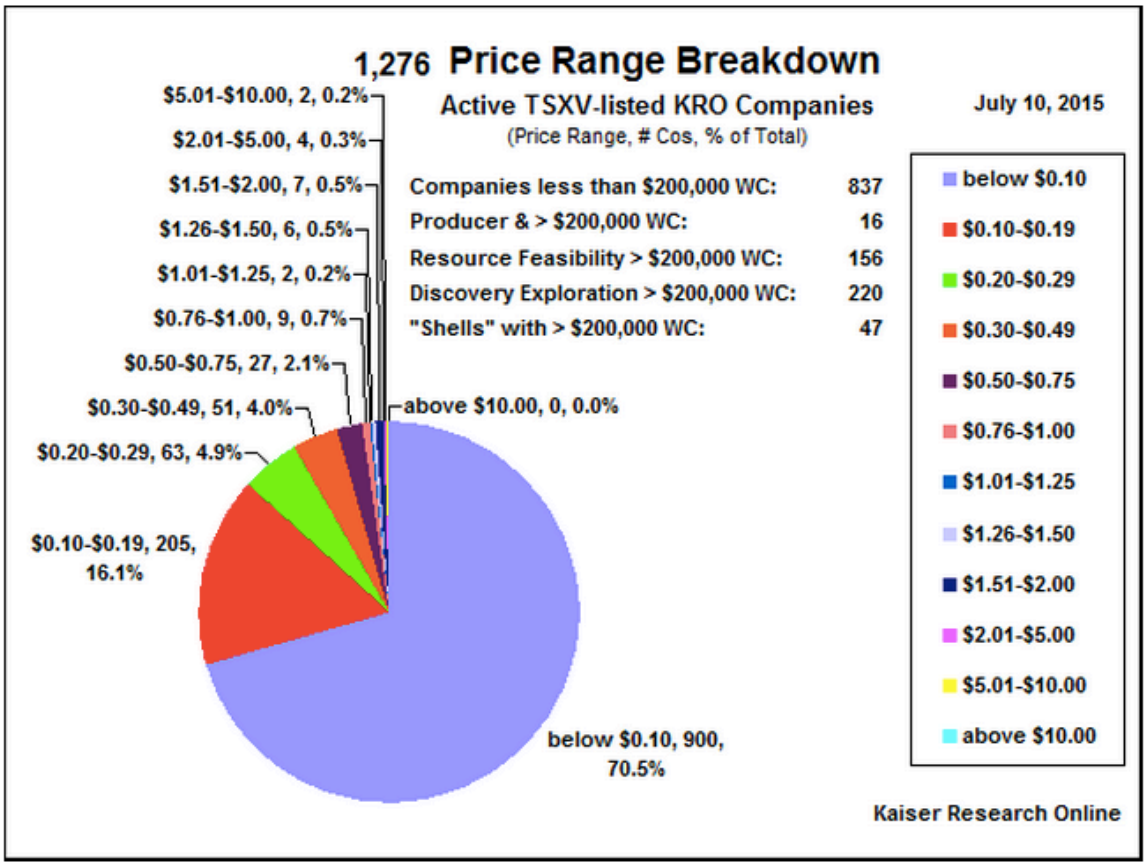
Despite the "quiet" first half in terms of Partnership news flow, the underperformance of the past 6 months is still hard to reconcile – as the dismal prospects for the TSX Venture as a whole contrasts sharply to those of the Partnership's carefully selected holdings.

As an initial point, 15 out of 17 Partnership holdings have at least $2m in working capital (with 8 out of the 17 having greater than $10m in WC). I view $2m as a rough minimum for the amount of working capital needed to continue advancing a non-producing asset. If a junior resource company has less than $2m in working capital, in the vast majority of cases, the company is merely "treading water" (aka paying management but not taking the necessary steps to advance their respective project). With this in mind, check out the below chart from June 30, 2015.



You can see that a whopping 911 out of 1589 companies on TSX Ventures exchange have less than $200k in working capital (forget about the $2m threshold mentioned above). These companies are not only treading water, but are facing imminent extinction. The fact that many of these companies continue to stick around astounds me; but I firmly believe that the slow but steady extinction of these "zombie companies" will be best for every serious participant in the space.

As a secondary point, the following chart demonstrates that a whopping 70% of TSX listed companies are trading below $0.10. While theoretically the share price is irrelevant to a given company's underlying business prospects, in these market conditions it certainly construes weakness. Meanwhile, 16 out of the Partnership's holdings 17 holdings have share prices above this (admittedly arbitrary) threshold. 5 out of the Partnership's 17 holdings have a share price greater than $1.



As a final point, 7 out of the Partnership's 17 holdings aren't even on the TSX Venture Exchange either because: (a) they are mining companies that have "graduated" to larger exchanges due to their size/success – examples include Nevsun Resources, Western Lithium, Denison Mines, Platinum Group Metals or (b) they are "Alternative Resource Holdings" listed elsewhere – examples include TFS Corporation, JG Boswell Co, and Marine Harvest. Characteristics of these holdings include: (1) market capitalizations in the hundreds of millions of dollars, (2) working capital balances of at least $20m, and (3) consistent dividends payouts.

While it has unfortunately not been the case over the trailing six months, these holdings will provide significantly more stability in future periods.

For the above reasons, I'm viewing this relative underperformance as a temporary blip – after all, the Partnership had outperformed the TSX Venture benchmark in the prior three 6-month periods. I fully expect the Partnership to consistently outperform the TSX Venture Index going forward – both for the remainder of this bear market and well into the impending bull market.

In this letter's Market Outlook, I discuss a few points of interest from the past 6 months: (a) continued declines in commodity prices, (b) the fact that general mining equities are historically cheap relative to their underlying metals, (c) expectations for the TSX Venture Index going forward, and (d) recent consolidations we are seeing in the energy metal space.

In the section titled Crash Course: How A Mine Is Made, I provide an overview of the Mining Development Cycle. I keep this piece basic in scope, as I realize that many reading this letter (and most of my investors) are unfamiliar with both how a mine is made and how prudent investors can profit through the process. This section applies to roughly 80% of the Partnership's current portfolio holdings.

I conclude by presenting this letter's Featured Investment (TFS Corporation) and providing updates on past Featured Investments.

Before jumping in, I'd like to extend a thank you to the numerous people that have made this Partnership possible. While it has been a rough ride since inception, I feel honored to be in this position and am confident that this 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, Jon Christian Evansen, Thibaut Lepouttre, and the numerous others that have provided valuable information/advice. And most importantly, thank you to the Limited Partners (both new and old) who provided the capital to make this possible.

Market Outlook

Commodities and commodity-focused equities have been stuck in a severe and protracted bear market since Q1 2011. The TSX Venture Index, a proxy for the investment universe of small to medium-sized resource equities, is down an astounding 90% over this period as investor interest (both retail and institutional) has evaporated.

Surprisingly from a historical perspective, this decline in the "hard asset" space is occurring during a period of extraordinarily loose monetary policy– which has fueled asset price bubbles seemingly everywhere else (the general stock market, real estate, government bonds, the list goes on).

Despite the massive underperformance, my medium to long-term views have not changed. Due to the severity of this decline and the extremely cheap prices that we are seeing with even the best mining/resource equities, I anticipate that the upcoming bull market (whether it begins next month or in 2019) will be an absolute barnstormer for intelligent investors that stick with the space. As Rick Rule famously says: "Bear markets are the authors of bull markets", and this has arguably been the most ugly resource bear market of the past half-century. When things inevitably do turn, "survivors" in the space will be handsomely rewarded.

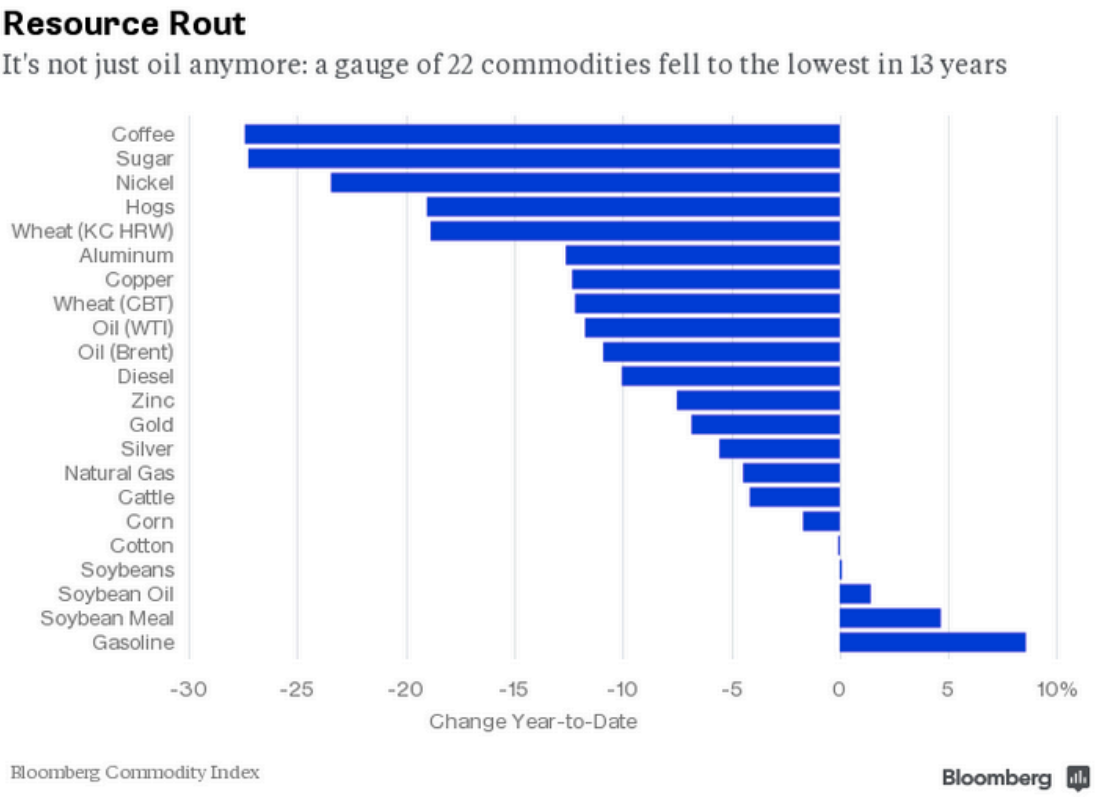
In this market outlook, I will focus on four simple points. The first point is very relevant to any and all participants in the commodity space – commodity futures continued to trend lower in H1 2015, with a serious acceleration in declines beginning in late June and persisting to today. Commodity futures haven't been this cheap since 2002.

Next, we focus on the fact that even with these lower prices – general mining equities are trading at up to 30-year lows when compared to their underlying commodities.

The third point focuses more narrowly on the TSX Venture Index (our proxy for the junior resource market), as I try to put the severity of this decline into perspective.

I conclude with a commentary on 2 recent developments in the "energy metals" space, both of which directly impact the Partnership's portfolio.

Prices of physical commodities continued to decline in H1 2015– with things getting particularly ugly over the past 6 weeks. The below chart demonstrates the carnage we have seen for the vast majority of commodities (hard and soft) over the trailing 12 months.



Trailing year performance is one thing, but more significantly commodity prices are now trading at levels:

a) lower than those seen in the depths of the 2008 financial crisis.

b) last seen BEFORE the global commodity boom of 2002-2007

Given the state of the global economy, does this plunge in " hard assets" make sense, or is it overdone? Even if the decline has been justified up until now, will it continue this way indefinitely?

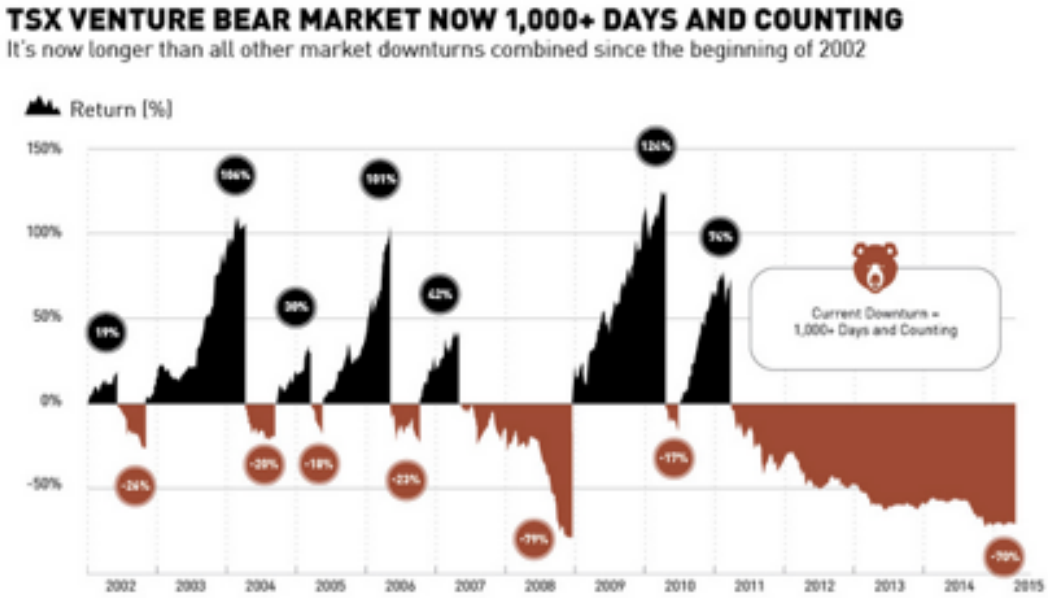
It has certainly been ugly but, if you have an investment horizon of at least 5 years, it's the perfect time to invest in hard assets. The next bull market in commodity prices will come from one of the following scenarios: (a) an uptick in demand due to the relative cheapness of resources, (b) significant supply curtailments due to the shuttering of higher cost operations and the deferment of marginal development projects, or (c) a combination of the above.

Even in light of the depressed metal prices shown above, the performance of general mining equities has been significantly worse than what would be expected. In fact, mining equities continue to trade at historic lows relative to their underlying metals. The below chart suggests that we haven't seen anything like this in over thirty years.

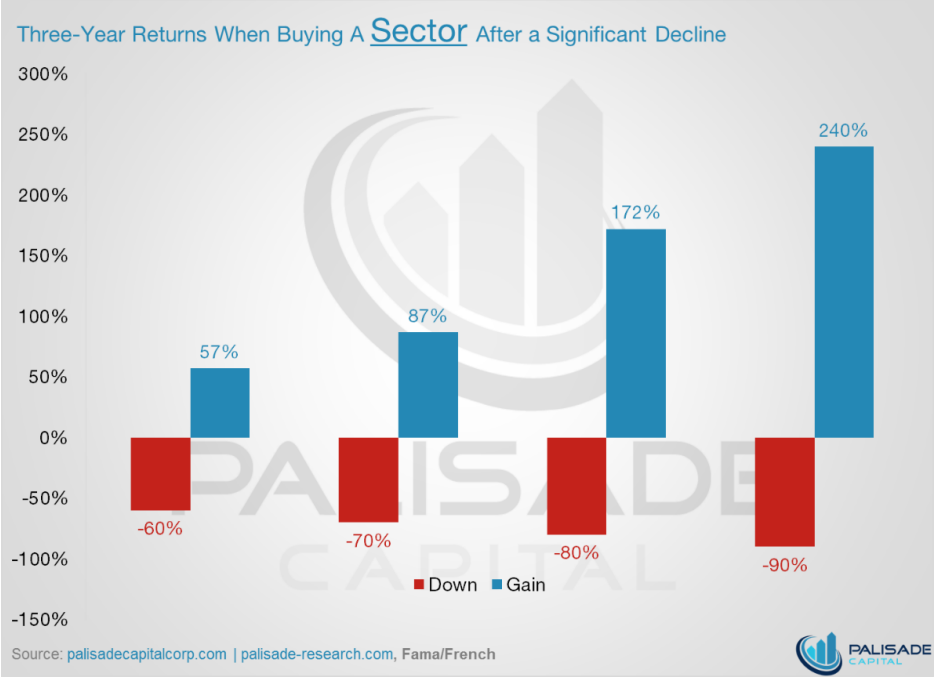
I understand that the above chart only pertains to gold; however this same phenomenon is occurring with the miners of other metals (silver, PNGs, copper, nickel, zinc, etc). Share prices are historically undervalued relative to actual commodity prices.

I think this is a GREAT time to purchase physical commodities (if you are so inclined; the Partnership doesn't) and a SPECTACULAR time to buy the miners/producers of these commodities themselves. It's a pretty simple thesis. I might not be right in the immediate term, but I am highly confident over the coming 3-5 years that there will be no better place to be investing your money.

The TSX Venture Index, which is mainly comprised of smaller mining companies in the exploration or development stages, is down between 70-90% since the beginning of 2011 (the discrepancy depends on whether you are willing to overlook the performance of delisted companies). The below chart helps illustrate the historic severity and duration of this current downturn.



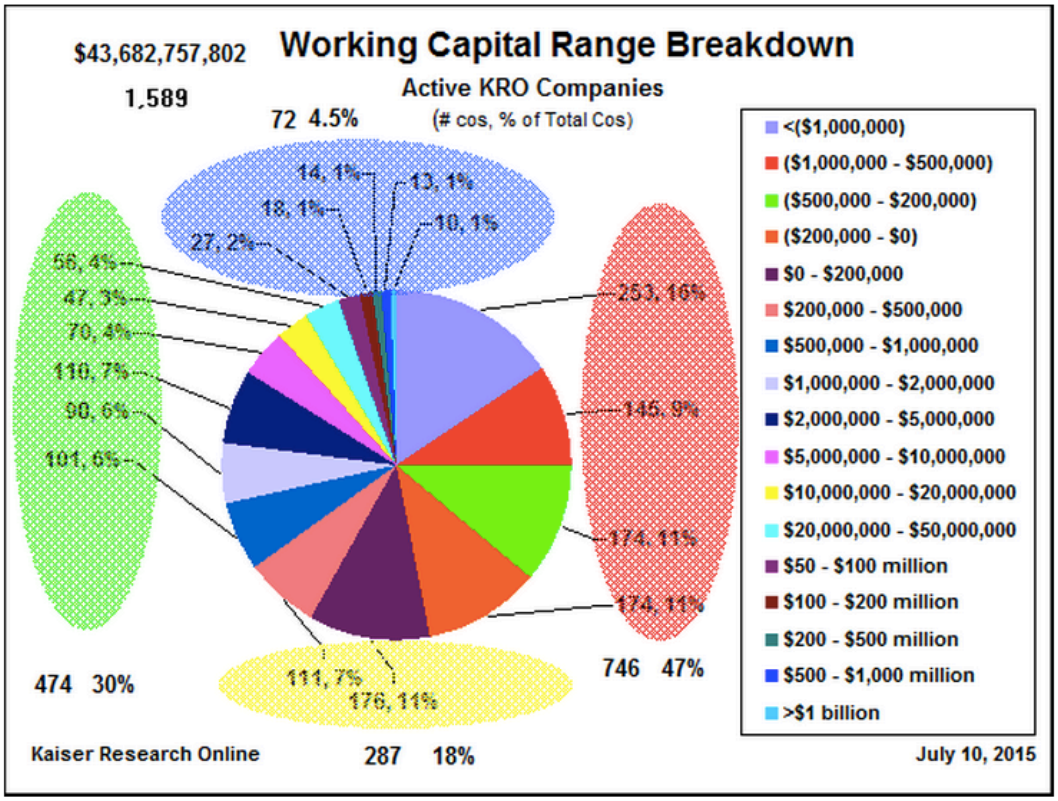
What does this mean looking forward? I recently came across a great chart that demonstrates 3-year returns in "destroyed sectors" (those down between 60-90%), such as the TSX. The chart (displayed below) uses data that spans back to 1920 and does a good job of quantifying the opportunities presented in beaten down markets.

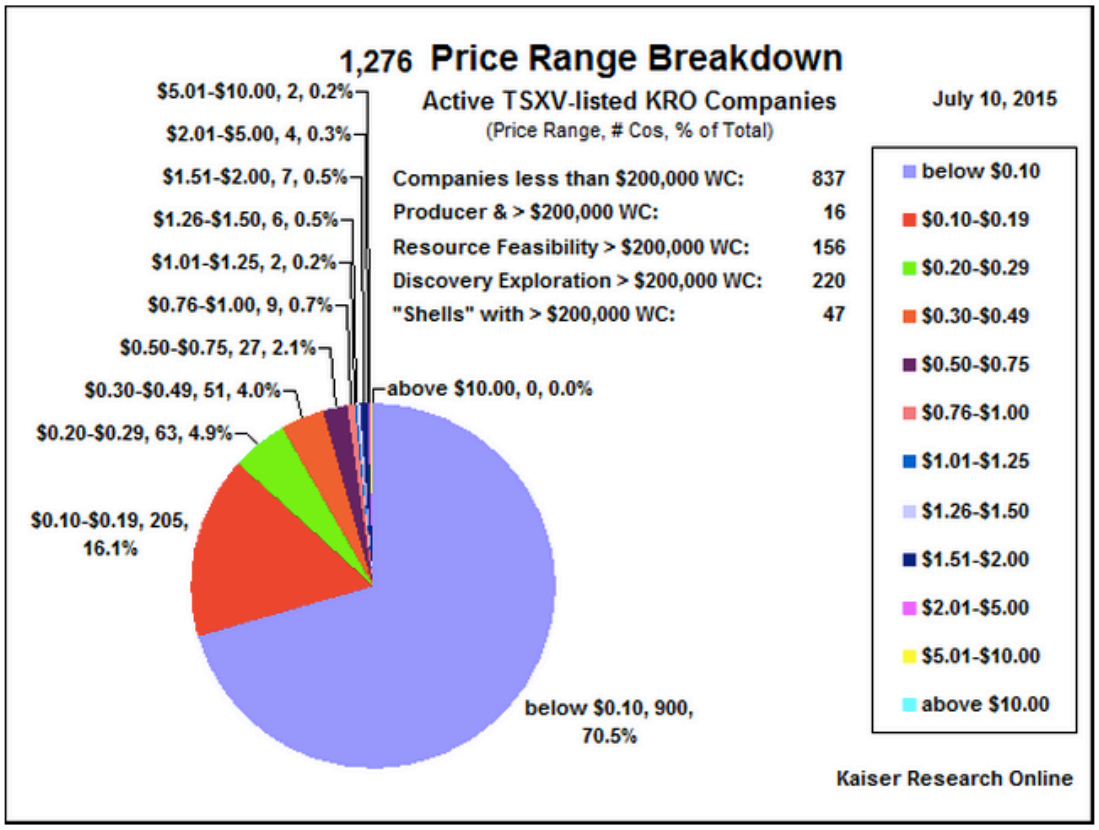


Even light of the above graph, I stand by my firm belief that any investor who buys the TSX Venture Index as a whole is not acting intelligently. Even though the TSX Venture Index WILL very likely see a positive move over the next 3 years, the best investors in the space can do significantly better by only buying the top 5-20% of companies in the index. It's important to remember that, while there are certainly diamonds in the rough, the majority of the companies listed on the TSX are complete junk.

Let me illustrate how you can quickly eliminate 70-80% of companies in the index as potential holdings, which allows you to zero in on the best of breed stories mentioned above (prime opportunities, serially successful mgmt teams, valuations at pennies on the dollar, etc). All you have to do is take a list of the entire TSX, and eliminate companies that fall into one of the following categories: (1) working cap less than $2m, (2) mkt cap less than $10m, and (3) share price less than $0.10.

The below 2 charts demonstrate that the majority of TSX Venture companies have (a) working capital of less than $2m and/or (b) share price of less than $0.10. While I wasn't able to find a chart pertaining to market capitalizations, my research indicates that only ~55% of current TSX companies have market caps greater than $10m.





This "process of elimination" outlined above provides a much more manageable starting point for selecting the VERY BEST PERFORMERS of the next upturn. Whether one buys a basket of the 20-30% of the companies that were not "crossed off the list", or continues to whittle down the list to the best 1-2% of the TSX Venture Index is fully up to the investor.

As a final point relevant to participants in the "energy metal space", we are beginning to see major consolidations occurring between top tier development projects. In just the past month we've seen two major deals, both of which involve a current Partnership holding:

1. Western Lithium Corp (a Partnership holding for nearly 24 months) and Lithium Americas Corp announced their intention to merge companies on June 30. According to WLC management, the deal will result in an "Increased market capitalization, with the combined entity having a pro-forma capitalization of over C$150 million, which should enhance trading liquidity and access to capital markets."

The deal should be completed by the end of September. The combined company will have two world-class lithium development projects on its hands. First production from Cauchari-Olaroz is expected within 2 years, while Kings Valley is expected to come online in 2019.

2. Denison Mines Corp (a Partnership holding since January 2014) and Fission Uranium announced their intention to merge companies on July 6. According to the news release: “Upon completion of the Transaction, the combined company, to be named "Denison Energy Corp.", will be approximately 50% owned by each of Denison's and Fission's existing shareholders on a fully-diluted in-the-money basis. The market capitalization of Denison and Fission on a combined basis is anticipated to be approximately CAD$900 million.”

This deal is expected to be approved by the end of October. Assuming it goes through, the combined company “Denison Energy” will become the 2nd most visible uranium miner globally – behind only fellow Canadian uranium miner Cameco.

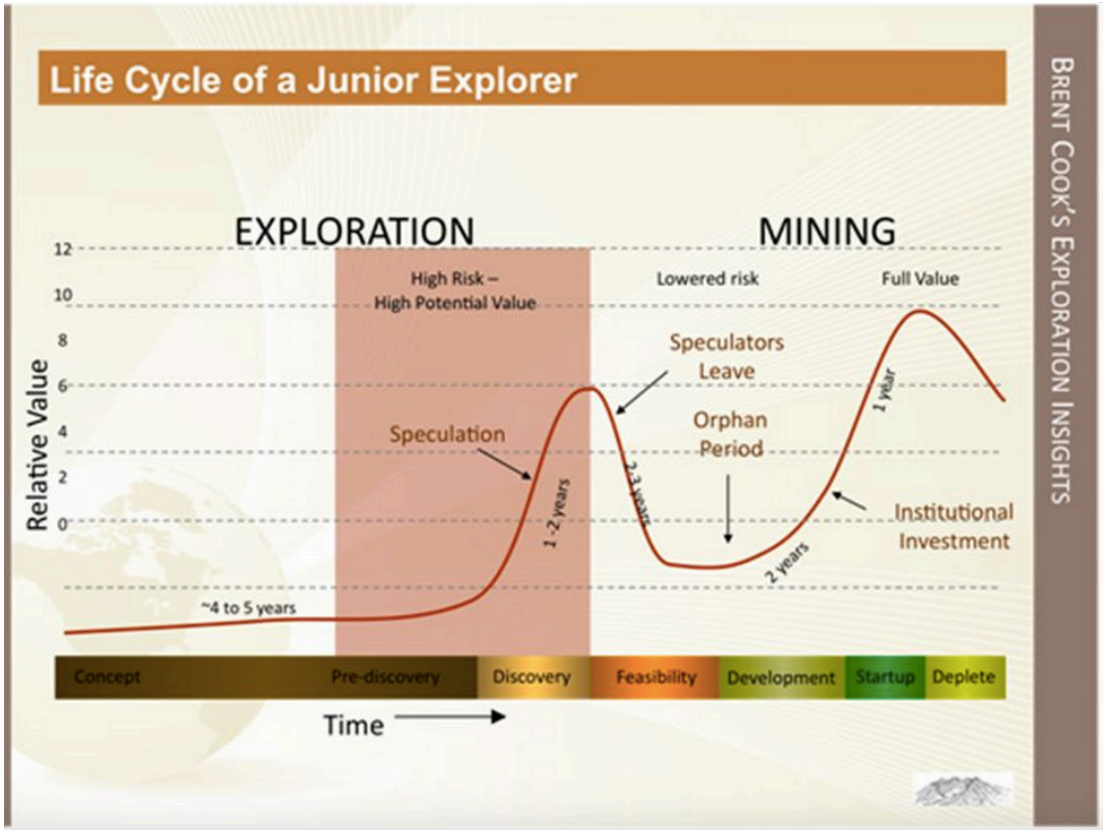
According to market observer Chris Berry: “In each of these cases, asset bases will be consolidated, SG&A will be minimized, and most importantly, cash will be conserved giving investors the optionality and sustainability which is crucial in the current market environment…”

I agree very much with this sentiment. At a time where survival is the name of the game in the resource industry, I like the concept of Partnership holdings becoming (a) larger in market cap, (b) more heavily capitalized, (c) more diverse project-wise, and (d) exposed to a wider investment audience. I look forward to both of these deals closing in the coming months, as well as the possibility of additional M&A activity involving Partnership holdings.

Crash Course: How a Mine is Made

From start to finish, it can take up to a decade to develop a producing mine from scratch. Along the way, a huge amount of investment is necessary (with no immediate return) due to the capital-intensive nature of the natural resource industry. Understandably, the vast majority of potential mines are not able to progress through the entire "Life Cycle" for varying reasons.

This piece will discuss the multi-year process necessary to turn an undiscovered mineral body into a producing mine. You'll see below a fantastic illustration of this Life Cycle provided by geologist Brent Cook. The scope of this piece will mainly be focused on the actual process (as illustrated by the colorful bottom bar of the chart), but there will also be mentions throughout the piece regarding relative value and risk (as illustrated by the red line).



The majority of the Partnership's 17 holdings are somewhere in this Life Cycle, currently trying to progress to the next stage (with the exception being the Alternative Resource Holdings). While this piece is relevant to junior miners worldwide, please understand that mentions of a "NI 43-101" study or resource estimate applies specifically to Canadian-listed companies. Quality Australian and pink sheet listed junior miners adhere to similar, though less regulated, studies.

As a second point, please note that a company doesn't necessarily need to start at square #1 in order to bring a potential mine to production. In some cases (more specifically, if partial exploration and/or development has already been conducted on the property in question), the "Concept Phase" and/or "Exploration Phase" can be completely skipped – saving both time and money. And then there are of course brownfield projects, which will be discussed in further depth at the end of this piece.

Concept Phase

Companies in the concept phase can be considered early stage mining "start ups". Team size at this point will likely be between 2-5 people, with the predominate skill sets being exploration geology and mine engineering. The company's treasury will likely be in the hundreds of thousands of dollars (or low millions if the team has had a serious past success from this stage).

In the concept phase, the company is responsible for developing an exploration thesis and strategic plan of action. These theses will generally emphasize: (a) a particular geological location, (b) a particular commodity, or (c) a particular exploration method. Once the company is confident in their direction, the final step in this phase is to stake prospective mineral licenses where one hopes to find an economic mineral deposit.

Exploration Phase

Once mineral licenses have been secured, it's on to the exploration phase (also known as the "pre-discovery phase"). This stage generally last 12-36 months for successful companies. There are two steps in the exploration phase: (1) grassroots exploration and (2) exploration drilling.

The main emphasis of grassroots exploration is to determine (in the least expensive manner possible) which areas of a mineral license are most likely host a deposit. Keep in mind that mineral licenses are often huge, and the vast majority of every license will ultimately be untouched by drilling. There are a whole host of grassroots techniques that are used to identify the promising areas of a license. I've included a fairly comprehensive list below with brief definitions for each technique:

- **Visual** – The exploration geologist walks and/or flies over the mineral license scouting for promising outcrops, unique coloring, and other geological anomalies.

- **Surface Samples** – Rock samples are collected at surface over a large geographical area and sent to the lab for assays.

- **Groundwater Samples** – Water is sampled at surface and tested for elements associated with mineral deposits.

- **Seismic Refraction Surveys**– A seismic reading that provides information on the distribution and thicknesses of subsurface layers of rock. Refraction surveys are used for "near-horizontal" geological formations at depths less than ~100 feet.

- **Seismic Reflection Surveys**– A seismic reading that provides information on the distribution and thicknesses of subsurface layers of rock. Reflection surveys are used for either (a) "dipping" geological formations or (b) targets such as cavities or tunnels at depths greater than ~50 feet.

- **DC Resistivity Surveys**– A technique used to assess the "electrical potential in the ground". The actual survey is quite simple - apply an electrical direct current (DC) between two electrodes implanted in the ground and measure the difference of potential between two additional electrodes that do not carry current. These surveys are used for anomalously thick or wet soils, most of which can be classified as "clay".

- **IP Surveys** – Induced polarization is an electromagnetic method that uses electrodes with time-varying currents and voltages to map geological formations. The IP method can probe to subsurface depths of thousands of meters and can be used to detect metallic sulfides, graphite, and clay.

- **Magnetic Surveys** – Magnetic surveys can be useful in (a) defining magnetic anomalies that represent an undiscovered ore body or (b) gauging the actual minerals associated with a known ore deposit. There are two main types of magnetic surveys: airborne surveys and ground surveys. Airborne surveys (in which a plane flies over the ground at an altitude of 100M while taking magnetic measurements every 10M) are advantageous in that you can cover a huge amount of ground. However, aeromag surveys can't get readings deeper than 200M below the earth's surface. This is where ground magnetic surveys come in - once a specific prospect has been identified, a much more focused ground survey can be undertaken. While it is over a significantly smaller surface area, ground magnetic surveys can provide up to 25x the detail/depth.

- **NMR Surveys** – Nuclear Magnetic Resonance (NMR) is the only geophysical tool that provides information on the pore fluid found in some geological formations. NMR is helpful in determining the pore fluid's type, saturation, viscosity, and permeability. NMR surveys are used for environmental and groundwater research, as well as oil and gas exploration.

- **GPR Surveys**- Ground penetrating radar (GPR) uses electromagnetic wave propagation to identify contrasts in electrical/magnetic properties in the

ground. GPR has the highest resolution in subsurface imaging of any geophysical method. Depth of Investigation varies from less than a meter to over 5,400 meters (in the case of ice sheets), depending on the ground's material properties.

- **Geophysical Well Logging** – Well logging is the practice of making a detailed record (a well log) of geological formations that have been penetrated by a borehole. The log may be based either on visual inspection of samples brought to the surface (geological logs) or on physical measurements made by instruments lowered into the hole (geophysical logs). Well logging is performed in boreholes drilled for mineral, groundwater, oil/gas, and geothermal exploration.

- **Gravity Surveys** – The gravity method is a relatively cheap, non-invasive, non-destructive remote sensing method that has been a favored exploration technique for decades. Gravity surveys are simply a measurement of the gravitational field at a series of different locations over an area of interest. The objective is to associate variations with differences in the distribution of densities (and hence rock types). This survey is used in the following fields: (a) base metal exploration, (b) oil and gas exploration, (c) hydrogeology, and (d) hydrothermal exploration.

- **Remote Sensing -** Remote sensing is the process of acquiring, processing, and interpreting images/data (acquired from aircraft and satellites) that record the interaction between matter and electromagnetic energy. There are two types of sensors used for mineral exploration: (1) optical sensors that measure the spectral data of sunlight reflected from the earth's surface and (2) synthetic aperture radar sensors that transmit microwaves and receive back scatter waves from the Earth's surface.

The 2nd step in the exploration phase is exploration drilling. This occurs once an appropriate amount of grassroots exploration has defined drill targets. At this point, it may be necessary to secure a drilling permit from the relevant jurisdiction.

An exploration drilling campaign typically takes 2-5 months from its initiation to the final assay results. The first step is to mobilize drill rigs (typically contracted in the case of junior explorers) at the defined drilling targets. In extreme cases, this seemingly simple step can take 4 plus weeks for projects that lack infrastructure and/or are in remote locations. Next the actual drilling takes place, typically lasting between 2-8 weeks depending on the amount of holes/drilling locations. Next, in a company owned "core shed", the drill core is logged and then "split" (where the cylindrical core is cut into halves or quarters). Next, split core is sent to an independent laboratory for analysis. Standard reference materials are sent along with the core to ensure proper QA/QC is conducted with respect to the laboratory analyses. This step can take up to two months, depending on the project's proximity

to the laboratory and the complexities associated with the mineral(s) being tested for. Once the final assay results are received, the company drafts a press release (sometimes including a refined or reinterpreted model of the deposit in question) and releases the drill results to the market.

There are plenty of questions that need to be considered in assessing drill results. Was this RC, percussion, or diamond drilling? What are the widths? Are these intercepts at surface or extremely deep? Will the rock types that were intercepted be amenable to economic processing or not? The list goes on. However, if you have to remember anything about assessing a drill hole, there are two items that stand above the rest: (a) the grade and (b) the intercept length. Both the grade and the intercept length matter equally. There have been a myriad of drill results with extremely impressive grades, but with intercepts too short to matter. Likewise, there have been countless results with impressive 100m plus intercepts with grades that are far too low to be economic.

When mineralization is intercepted, the press release will typically state something along the lines of "20m of 1.05% copper". Both the grade "1.05% copper" and the intercept length "20m" are of equal importance. In the case of this hypothetical example, a grade of 1.05% copper is very impressive, as the average copper grade mined worldwide is roughly 0.45% copper. However, the 20m-intercept length is not particularly impressive (in terms of copper, only something above 100m would really raise eyebrows). While at first analyzing drill results seems somewhat arbitrary (for instance, in contrast to the above example, even a 1-2m intercept of nickel sulphides grading 2%+ is extremely meaningful), with context and experience it becomes easier to pick out truly exceptional results.

The initial goal of exploration drilling is to advance the understanding of your license's geology (beyond what might have been gleaned from grassroots exploration). Even if the first few drill holes are "duds" (which means that they do not intercept significant mineralization), valuable information is provided that may help a exploration geologist refine or even reinterpret his understanding of what's going on below the ground.

However, if the company hopes to advance to later stages of the mine cycle, they must eventually hit a "discovery hole" before their treasury runs out. In a discovery hole, there are such high grades of a certain mineral over an impressive distance that the trained observer has no doubt that a sizable mineral deposit is present. While there is no cut and dry formula to determine whether a drill result constitutes a "discovery hole", the results are generally so abnormal (in both grade and width) that it is obvious with a little context. A few examples of discovery holes I've witnessed since the Partnership's inception include:

266m grading 1.07% copper and 0.28 g/t gold (Reservoir Minerals)

8.5 meters grading 1.07% U308 (Fission Uranium)

324m grading 1.07% copper and 1.16 g/t gold (Cornerstone Capital)

103m grading 2.2% copper and 9 g/t gold (Mariana Resources)

Discovery Phase

If/when a legitimate discovery hole is hit, the focus shifts from scouring the license for prospects to defining the deposit you have found. By the end of this phase (which generally lasts 12-24 months), you want to have a rough idea about the grade, size, depth, and rock type of the new discovery. Only then can you begin to assess whether you have found a mine that is economic at current metal prices.

There are two main steps to this phase: (a) step out drilling and (b) an NI 43-101 resource estimate.

Step out drill programs have a fixed starting point (usually the discovery hole) from which they intend to expand the mineralization zone. The duration of step out programs depends on both the commodity and the type of deposit you are looking at. For instance, some deposits (such as a continuous coal seem) may take a mere 6 holes to complete step out drilling. On the flip side of things, gold or base metal deposits may take up to 10x more drilling.

Ultimately, the length of the step out program is a question of spacing between the drill holes vs. the # of holes drilled. Once you have drilled and defined the edges of the mineralization, you look at statistics to tell you how close the holes need to be for a resource estimate (step #2 of the discovery phase). For instance, the spacing in large porphyry copper deposits is typically around 1000 feet of spacing for an inferred resource and 300 feet for a measured resource. (Exact definitions of "inferred" and "measured" resources will follow shortly.) For a high grade gold or uranium deposit, you need to be more detailed in your drilling– 50 feet spacing for an inferred resource and all the way down to 12.5 feet spacing for measured.

Once the step out program has been completed, the company (alongside a third-party consultant) is able to prepare a NI 43-101 resource estimate. These estimates provide visibility on the size and grade of the prospective mineral deposit. Mineral Resources are sub-divided, in order of increasing geological confidence, into the following three categories:

Inferred Resources – the part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be of limited or uncertain quality and reliability.

Indicated Resources - mineral occurrences that have been sampled (from locations such as outcrops, trenches, pits and drillholes) to a point where an estimate has been made, at a reasonable level of confidence, of their contained metal, grade, tonnage, shape, densities, physical characteristics.

Measured Resources - resources that have undergone enough further sampling that a 'competent person' (defined by the norms of the relevant mining code; usually a geologist) has declared them to be an acceptable estimate, at a high degree of confidence, of the grade, tonnage, shape, densities, physical characteristics and mineral content of the mineral occurrence.

Feasibility Phase

While a resource estimate provides further clarity on the size and grade of the deposit, it does not provide investors with much visibility regarding the economics. This changes in the feasibility stage – where up to 3 studies on the project's economics may be released (each with a decreasing margin of error). Even for successful stories, the feasibility phase is generally a 3-5 year slog. And it's important to remember that the vast majority of companies that begin this phase do not make it all the way through.

Before discussing the 3 studies, it is important to note that drilling occurs throughout the feasibility phase, including three possible types:

(a) step out drilling if there is potential to increase the size of the deposit after the first resource estimate,

(b) infill drilling to continue to move more and more of the resource into the "measured" category by decreasing the spacing in between drill holes

(c) drilling for infrastructure/geotechnical studies which studies the deposit's structure and characteristics in preparation for mining

A wide variety of internal studies are also carried out over this multi-year phase. The two most relevant (aside from the infrastructure/geotechnical studies mentioned above) are metallurgy and environmental studies.

Metallurgy/processing studies occur throughout the feasibility phase, with increasing degrees of accuracy. These studies focus on the economics and actual technical processes needed once ore is extracted from the ground when a mining operation hypothetically begins. Remember that a rich copper deposit in today's standards averages 1% copper. That means that once the actual ore is scooped from the ground, there needs to be processing circuits in place to separate the copper

from the other 99%! This is an essential part of the equation for any mine – metallurgical difficulties have doomed thousands of potentially economic mines. That understood, there are specific aims for these studies: (1) determining the expected "recovery" of the actual mineral from the mined ore, (2) determining the optimal processing methods in regards to OpEx, (3) determining the optimal processing methods in regards to CapEx, and (4) determining whether additional byproduct minerals can be recovered economically from the mined ore.

Permitting and Environmental studies will also be conducted throughout the feasibility phase, though with a heavier weighting towards the later stages. From a practical perspective, these studies need to be completed and approved by the government prior to the beginning of construction. . In most jurisdictions, the company needs to: (1) show how it will protect the water, air, flora, fauna, and/or any archeological structures and (2) provide a closure and remediation plan for the mine, which usually entails putting up a bond to cover closure/remediation costs.

The studies and drill programs mentioned above ultimately support the release of 3 different reports that estimate the economic value of the project in question (with increasing degrees of accuracy). One important note is that all of these studies are released in conjunction with a third party engineering consultancy. Depending on the project, it may take years and tens of millions of dollars to complete all three of the studies. Any company able to progress through all three studies should consider themselves very lucky – as the vast majority of companies will release a PEA/PFS/FS only to realize that their deposit is not worth pursuing further due to economics.

Preliminary Economic Assessment (PEA) – The first and least expensive of these three studies is the PEA. A PEA generally costs between $2-5M to commission and carries a 30-35% error margin. The main focuses of the PEA are to: (a) assign an initial economic value on the project, (b) evaluate recoveries, and (c) decide upon an optimal processing method. This report, which generally takes 12 months to complete, is an exciting one for junior mining investors as it's the first chance to glean initial estimates and management assumptions in the following areas: (i) pre/post tax NPV, (ii) pre/post tax IRR, (iii) pre/post tax payback, (iv) average annual production, (v) initial capex, (vi) all-in cash costs of production, (vii) projected lifespan of production, (viii) project's assigned discount rate, and (ix) projected commodity pricing. All of the above estimates/assumptions are refined with increasing accuracy in the following reports. A critical difference between a PEA and the next two reports (PFS and FS) is that only in a PEA can you include Inferred Resources.

Pre-Feasibility Study (PFS) – For companies who have been able to produce a promising PEA, the next step is to begin work on Pre-Feasibility Study. Depending on the size and technical profile of a specific project, a PFS can cost anywhere

between $5-30M and take between 12-24 months to complete. The main goals of the PFS include: (a) refining the error margin to 15-20%, (b) producing a mineable reserve, (c) undertaking detailed engineering studies to better estimate project costs, and (d) defining a project "base case scenario". Employment of project specific metrics is actually what sets a PFS apart from a PEA (which is generally based on industry standards rather than being derived from detailed site-specific data).

In rare cases, the PFS can be skipped if management is so sure about the economics of a given deposit after releasing a PEA that they immediately embark on the more costly (both in time and money) Feasibility Study. Golden Arrow Resources and Kaminak Gold are two companies currently pursuing this strategy. However, more often than not, the PFS is a necessary step to attract the funding, off-take agreements, etc that are necessary to advance mine development.

Feasibility Study (FS) – The final and most detailed of these three studies is the Feasibility Study, which is confusingly also referred to within the industry as a "Definitive Feasibility Study (DFS)" or a "Bankable Feasibility Study (BFS)". According to NI 43-101, a Feasibility Study is a "comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production." Depending on the size and technical profile of a specific project, a PFS can cost anywhere between $5-30M and take between 12-36 months to complete. The main goals of the FS include: (a) refining the error margin to 8-12% and (b) provide a final economic assessment of the project before potential financing/construction.

Interestingly, the FS is an extremely important milestone in terms of financing for more than the above reasons. This is due to a legal technicality – once a junior resource company has released a FS, commercial banks are able to provide debt financing without personal liability if the investment turns into a major bust (responsibility in this case shifts to management and the associated engineering consultancy). However, if a commercial bank invests before the release of an FS, the bank and its officers take full responsibility in the case of a major bust. For this reason, the release of a Feasibility Study is generally necessary for a prospective mine to receive full construction financing, particularly if debt is involved.

These three reports are of extreme interest to any serious investor in the junior resource space, and at the very end of this piece I address how I value a development project based on its stage of development. In the meantime though, I will provide a short list of what I specifically look at in PEA/PFS/FS reports. After determining whether the management and the third party consultancy used

reasonable expense assumptions and expected future commodity prices, I look for at three things to determine whether the company is working on a "quality asset":

1. NPV > initial capex
2. IRR > 25%
3. Payback < 3 years

Please note that the above metrics only apply to whether the project is a *quality asset*. This is only half of the equation and should be not confused with a *quality investment*. The judgment of investment potential for mining projects in the development stage will be discussed at the very end of this piece.

Mine Financing

Before beginning construction, the junior miner in question must procure financing for their project's initial capex. This can be done in a number of manners - I will outline the most popular options below.

Offtake Agreement – This form of financing involves an end user of the commodity being produced by the prospective mine. (For instance, a major Chinese producer of copper wiring could theoretically enter into an offtake with a prospective copper mine.) A "proper" offtake agreement entails the following two things: (a) a commitment by the end user to purchase all or some of the future mine's production and (b) a commitment by the end user to fund all or some of the mine's capex. Nowadays, particular in the specialty metal space, we are seeing pseudo-offtake agreements – where an end user commits to purchasing future production but does NOT commit to funding any of the project's capex. If anything, this is more of a vote of confidence and is not as meaningful as a proper offtake agreement

Equity – A third party financing option (aka a commercial bank, hedge fund, private equity group, sovereign wealth fund, pension fund, etc) provides all or some of the project's capex in exchange for either (a) an equity stake in the *company* in question or (b) an equity stake in the *project* in question.

Debt – A third party financing option provides all or some of the project's capex in the form of debt. The details of debt agreements vary dramatically from company to company. Often times there are covenants attached in which creditor can gain further control and/or ownership in the case of mishaps (i.e. construction isn't completed in a timely manner or the company's working capital drops below a predetermined level). Sometimes the debt can convert to equity if certain conditions are met.

Acquisition – This popular method of financing a mine's construction is also the most easy to understand. It entails a larger mining company purchasing outright either (a) the company who owns the prospective mine or (b) the prospective mine

itself. The larger mining outfit then uses internal capital and technical know how to ultimately construct the mine.

Joint Venture Agreement – A larger mining company provides all or some of the project's capex in exchange for partial ownership of the project and/or equity in the junior miner who owns the project. This type of agreement will often occur well before the Feasibility Study is released and, in rare cases, before the prospective mineral body has even been discovered. Though not always the case, the majority of JVs ultimately lead to an acquisition (discussed above) due to the fact that very few junior miners are in the financial position to provide a significant percentage of their project's initial capex.

Royalty Agreement – This financing option includes a third party (often described shorthand as "streaming and royalty company" – popular examples include Silver Wheaton, Franco Nevada, Royal Gold) who provides all or some of the project's initial capex in exchange for a certain percentage of the prospective mine's net smelter return. Net smelter return (NSR) is defined as the gross revenue that occurs within a defined mining property, minus transportation and refining costs. From an investment perspective, the appeal of royalty agreements is that occasionally mines have become much bigger in size in the months or years after a royalty agreement had been signed (aka the investor gets a slice of a larger than expected pie).

Streaming Agreement – The majority of streaming agreements are also underwritten by dedicated "streaming and royalty companies". In this option, the financier agrees to fund all or some of the project's initial capex – in exchange for the right (and/or obligation) to purchase a predetermined quantity of mine production at a predetermined price (often much lower than market). While this type of agreement doesn't provide the financier the ability to profit off of further discovery, it does provide leverage to the price of the commodity in question.

As stated earlier, the vast majority of development projects do not even advance to the point of a Feasibility Study – and obtaining actual financing for the project's capex (often in the hundreds of millions of dollars) is an even more daunting hurdle. More often than not, it takes a combination of the above financing options to ultimately procure full funding for mine construction. Two very feasible hypotheticals follow:

A junior mining outfit strikes gold by discovering a major copper/gold porphyry deposit in Chile. The company is able to advance the project through a Prefeasibility Study – which shows robust numbers. However, due to funding restraints, the company decides to fully sell the project to a larger mining company. The larger company in turn is able to develop the prospective mine to the point of construction, but only have the working capital available to fund 50% of the project's initial capex. They then turn to a large gold streaming company who agrees to the remaining costs in exchange for all gold production from the proposed mine. Only then can construction begin.

A well-backed junior mining company acquires a major potash deposit in Ethiopia. Over 3-4 years, the company is able to advance the project through a Feasibility Study by conducting standard capital raises. Understanding that the project's capex will be too large to fund by itself, the company agrees to give a large fertilizer producer a 30% stake in the project in exchange for a commitment to fund 30% of initial capex. This announcement attracts the attention of multiple African development banks, who agree to fund 60% of the project with debt (the junior miner is then responsible to provide the remaining 10%). Only then can construction begin.

Construction Phase

Once financing for initial capex has been obtained, construction can begin. From company to company, the mine being constructed will vary significantly in cost, size, technical difficulty, and length of construction (generally between 1-3 years). Ultimately one of three different mine types will be constructed:

Open pit – An open pit operation is the least technically difficult of these mining methods. It involves blasting layers of rock from the surface and then loading the ore onto trucks to transport to a plant for processing. Open pit mining is limited to mineral deposits that sit near the surface of the earth (a good rule of thumb is that any deposit within 200m is amenable to this method).

Due to the lower capex (and possibly operating costs) open pit mines enjoy when compared to an equally sized underground project, the company can often get away with mining a lower grade deposit then their underground counterpart and still enjoy impressive economics. This illustrates the fact that a large, low-grade, near-surface mineral deposit can be extremely valuable; given that it is near enough to the earth's surface to employ open pit methods. Conversely, the very same deposit 1000m deeper could be completely worthless as an underground mine.

Underground – An underground mining operation applies to mineral deposits that sit far enough below the earth's surface to the point where an open pit mine is no longer feasible and/or economic. These deposits have to be high enough in grade of the mineral in question in order to justify the higher development costs of an underground mine. Underground mines will generally extend to a depth between 200-1500m; however the world's deepest underground mine (the TauTona gold mine in South Africa) has reached the unfathomable depth of 4000m.

There are three general methods to construct an underground mine. Room and pillar the method of choice for more shallow underground mines. It involves excavating rooms and installing pillars that hold up the roof during mineral extraction. For deeper mines, one of two methods is used. In block caving, miners drill tunnels underneath the ore deposits and then draw the material down. In the

more selective/expensive cut-and-fill method, miners work in horizontal slices underneath the surface, and the slices are then backfilled after the mining is finished.

In Situ Recovery (ISR)– Conventional mining involves removing mineralized rock from the ground, breaking it up and treating it to remove the minerals being sought. In Situ Recovery, on the other hand, involves leaving the ore where it is in the ground, and recovering the minerals from it by dissolving them and pumping the pregnant solution to the surface where the minerals can be recovered. Consequently there is little surface disturbance and no tailings or waste rock generated.

The ISR technique relies on the principle of hydraulic control. Hydraulic control is a series of wells around the mine area that lowers the water table so that all solutions flow inward to the deposit (this ensures that no groundwater contamination occurs below the water table). In a nutshell, the In Situ process is as follows: (a) the company "fences off" the area that they want to mine using hydraulic control, (b) the company mines the "fenced off area", (c) the company rinses the "fenced off area", and then (d) the company removes the hydraulic fences and moves on to the next portion of the deposit that they would like to mine.

In situ operations are by far the most obscure of these three mining methods. In fact, ISR mining has only been used on uranium, copper, gold, salt, and sulfur deposits up to present day. (Interestingly, an impressive 47% of global uranium supply is mined this way; meanwhile the vast majority of copper or gold mines are open pit/underground.)

The decision on whether to employ an open pit, underground or in situ operation depends solely on the characteristics of the actual mineral deposit and its effect on economics. For the vast majority of projects, the likely mining method is known well before the PEA is even released. However, you will occasionally see major adjustments to the mining method as the project advances through the PEA, PFS, and/or FS (particularly in cases where additional drilling reveals that the actual mineral deposit is significantly different than what was anticipated in earlier models).

While it is tempting to think otherwise, a potential mine is far from de-risked even after construction commences. (In fact, as I will explain in more detail in the last section of this piece, I only assign 50-60% of the NPV to prospective mines in the construction phase – implying that I believe up to half of them will not make it cleanly to full production.) In the recent bear market, there have been a few stark examples of how badly things can go wrong, even in this advanced stage of development:

Colossus Minerals is one such example. The company began construction on their Serra Pelada property in late 2011 and was sporting a market capitalization of nearly $1b in early 2013. The company began to encounter major construction issues due to

flooding in mid-2013 and announced that both more time and more money will be needed before first production. These struggles resulted in stunning wealth destruction over the following months – by the end of 2013 the company's shares were worth less than $0.10. The technical reason for this decline was panicked selling due to worries that Colossus would violate debt covenants and risk default. Sure enough, while the timeline is unclear, it looks as if the entire Serra Pelada project is going to be taken over by creditors in the near future.

RB Energy began construction on its Quebec-based Val d'Or lithium project in 2013 and had a share price of ~$0.80 in early 2014. In mid-2014, however, the company also reported that both more money and more time would be needed before reaching first commercial production. This negative news resulted in a precipitous share price decline as investors worried about the project falling into the hands of creditors. Sure enough, the company's shares are now trading at less than $0.01 (for a total decline of 99.8% over the trailing 12 months) and shareholders will likely receive no compensation for the project.

Formation Metals started construction on their Idaho Cobalt Project in Q3 2011 but only raised financing for half of the project's initial capex. Due to deteriorating market conditions, the company was unable to raise the full sum after over one year of effort and, in Q1 2013, essentially halted construction activities. The unique aspect here is that the company found themselves stuck on-site with tens of millions of dollars equipment/construction materials that had already been procured in anticipation of construction. While it did not result in a full loss of the actual project, a lawsuit was brought against Formation's management for their role in the fiasco.

Production Phase

Reaching the production phase is a massive achievement, particularly for companies that do not have other producing mines. This phase is all about cash flow. By this point, tens of millions will have been spent on exploration, development, and mine construction – with not a single cent of cash flow being generated by the potential mine! Mining is inherently an extremely capital intensive business, and only after production is reached can a company begin to recoup their massive investment of time, effort, and money. As a good rule of thumb, a quality mine will generally recoup its entire initial capex within 3 years or less.

Before the celebrations can begin, the mine must be "scaled up" to full production. This process will generally take between 1-4 quarters (and in a surprising amount of cases far longer if the company was being too optimistic with their estimates – the rise and fall of Molycorp is an extreme example that is particularly engrained into the minds of past/present rare earth participants). During the scaling up period, the company will focus on (a) maximizing recoveries in the processing circuit, (b) minimizing inefficiencies in the mining method, and (c) tailoring the final product to end user specifications.

Some mine plans call for "scaled expansion" – where injections of sustaining capital are planned 1-5 years after first production to boost the mine's production (and value) further. This strategy is particularly common in bear markets when funding for initial construction financing is scarce. The benefit of this strategy is threefold: (1) the company has the opportunity to use internal cash flow to fund all or some of the necessary sustaining capital, (2) the company can wait for higher commodity prices before committing to further production, and (3) if necessary, the company has an opportunity to prove to prospective investors that the project is viable.

The production stage will generally last between 10-30 years, though some current mines have been operating over 100 years. More often than not, the ultimate life of mine will be stretched longer than original projections. The company can expect positive cash flow over this entire period (whether this cash flow satisfies market expectations is of course a different story).

Greenfield vs Brownfield

Now that we've completed our discussion of the mining cycle, it's time to clear up some loose ends. The above sections contained a key, unsaid assumption –that the mine in question is being built completely from scratch. This is called a "greenfield operation", which basically means that no mining operations of any kind had been conducted on the property before.

There is a second option called a "brownfield operation". A brownfield operation refers to projects that are located near or adjacent to an operating mine (or a mine that formerly was in production). As geologists are able to use existing data, the risk in brownfield exploration is considerably lower than in greenfield exploration. Additionally, because the facilities for mining and processing the ore have often already been built and paid for, the initial capital expenditure necessary restart production is often far lower at a brownfield project.

How to quickly value a project based on NPV and Stage of Development

This is the final part of this crash course. Below I will illustrate a back of the envelope method to evaluate an approximate fair value for development stage projects. In short, the method is simply a risk-adjusted estimate of future (discounted) cash flow. Please note that this applies to roughly 50% of the Partnership's overall portfolio. To further clarify, the following technique only applies to companies that are in either the *feasibility phase* (i.e. the company is working on either a PEA, PFS, or FS), *mine financing stage,* or *construction phase*.

It's important to understand that this technique indicates "value" (vs "quality"). As I stated earlier in this piece, a "quality" project will generally adhere to the following three financial measures:

1. NPV > initial capex
2. IRR > 25%
3. Payback < 3 years

If the above three conditions are met, there is a high likelihood that the project will be constructed and become a producing mine.

That said, just because a project is highly likely to reach production DOES NOT mean that it is a prudent investment. Think about it – as an extreme anecdote, a mine certain to reach production with an NPV of $500m at a $800m market capitalization probably isn't as attractive as a mine with a 40% chance of reaching production, an equal NPV of $500m, and a market cap of $40m (aka an expected value of $200m – significantly differing from the current market cap). This is simple expected value arithmetic and is the crux of valuing of companies in these early stages.

Remember, this is only a back of the envelope way of valuing junior mining development projects and is only significant if the market capitalization of the company in question truly diverges from the expected fair value. On top of that, it needs to be stated again that the project needs to be (a) legitimately viable with a competent management team – i.e. no fraud, which occasionally happens in this space and (b) realistic commodity pricing estimates – generally anything above current market prices is a red flag. With that said, the method is as follows:

A company who has recently released a PEA should most likely have a market capitalization between 5-10% of NPV. Assuming that the project is "quality", any market cap greater than 10% is likely overvalued; likewise, any market cap less than 5% is potentially undervalued.

Once a company releases a PEA, you'd expect their valuation to be between 5-10% of their expected NPV. The implicit assumption here is that historically only 1 out of every 10-20 potential mines at this stage will ultimately reach production (and realize the NPV projected in their PEA). These statistics are sobering but reasonable when you consider (a) the $5-30m that presumably will need to be raised to advance to the next stage of development and (b) the fact that a PEA has a whopping 30% margin of error.

A company who has recently released a PFS should most likely have a market capitalization between 15-20% of NPV. Assuming that the project is "quality",

any market cap greater than 20% is likely overvalued; likewise, any market cap less than 15% is potentially undervalued.

Once a company releases a PEA, you'd expect their valuation to be between 15-20% of their projected NPV. The implicit assumption here is that historically only 1 out of every 5-7 potential mines at this stage will ultimately reach production (and realize the NPV projected in their PFS). These statistics reflect the improving odds of reaching production. That said, $5-30m will presumably need to be raised to advance to the next stage, and this particular report still has 15-20% margin of error.

A company who has recently released a FS should most likely have a market capitalization between 25-35% of NPV. Assuming that the project is "quality", any market cap greater than 35% is likely overvalued; likewise, any market cap less than 25% is potentially undervalued.

Once a company releases a FS (and HAS NOT YET RAISED CONSTRUCTION FINANCING), you'd expect their valuation to be between 25-35% of their expected NPV. The implicit assumption here is that historically 1 out of every 3-4 potential mines at this stage will ultimately reach production (and realize the NPV projected in their FS). While a FS has a respectable 8-12% margin of error, historically it is clear that companies at this stage are not a shoo-in to reach production. More specifically, in order to reach production, a company at this stage still has to accomplish three daunting tasks: (1) raising construction financing – which may very well be in the hundreds of millions if not billions of dollars, (2) complete construction on budget and in a timely manner, and (3) scale up production to expectations in a timely manner.

A company who has recently started construction should most likely have a market capitalization between 50-100% of NPV. Assuming that the project is "quality", any market cap greater than 100% is likely overvalued; likewise, any market cap less than 50% is potentially undervalued.

For a mine currently under construction, a valuation between 50-100% generally indicates fair value. Key determinants include: (a) the amount of time until first production and (b) whether the initial capex has been fully raised. A mine under construction that is valued at greater than the NPV projected in the Feasibility Study indicates one of two things: (1) the mine is overvalued by the market or (b) long-term prices of the commodity in question will be significantly higher than the assumptions made in the Feasibility Study. The line between these two scenarios is often blurred. Likewise, if the mine under construction is valued at less than 50% of projected NPV, it may very well be an excellent bargain (assuming due diligence reveals no serious problems).

Overview of Partnership Holdings

Below is a breakdown of the Partnership's holdings as of July 15, 2015. 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	9%
Aquaculture*	8%
Farmland w/ Water Rights*	5%
Wood Products	
Sandalwood*	7%
Clean Energy Metals	
Silver	19%
Scandium	14%
Uranium	7%
Lithium	5%
Platinum Group Metals	2%
Graphite	2%
Infrastructure Metals	
Copper	19%
Cash	3%

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

Allocation By Country (Flagship Project/Operation)	
Australia	21%
United States	12%
Mexico	10%
Argentina	9%
Norway	8%
Botswana	8%
Canada	7%
Peru	5%
Eritrea	5%
Brazil	4%
Sweden	2%
South Africa	2%
Serbia	2%
Ecuador	2%
Cash	3%

Allocation By Operational Phase	
Exploration	20%
Development	46%
Production	31%
Cash	3%

Featured Investment: TFS Corporation Limited (ASX:TFC)

TFS Corporation is an Australian-based company focused on the management of sandalwood plantations. At its current valuation, TFS has a combination of extreme potential upside with a large-margin of safety - characteristics seen in classic value investments. TFS offers exceptional upside for the following reasons: (a) the company is one of the few vehicles globally offering exposure to the price of sandalwood, (b) the company's JV with Nestle's pharmaceutical unit is a potentially massive opportunity for value creation, and (c) the company's first mover advantage affords them tremendous opportunity to profit through their "plantation management business" – even if sandalwood prices stagnate in the coming years.

The Partnership has held TFC shares since May 2014, with an average cost of $1.86 per share (in AUD). As of July 15th, TFS Corporation was trading at $1.48.

In this *Featured Investment* piece, I start by providing the investment thesis for sandalwood. Despite the fact that sandalwood prices have been growing 15% annually for the past 22 years, the wood is still an obscurity to the vast majority of investors. I'll try to demystify the sandalwood supply/demand picture in this section.

I then present my investment thesis for TFS Corporation, covering the company's 15-year history, management team, current operations, and ultimate upside as an investment.

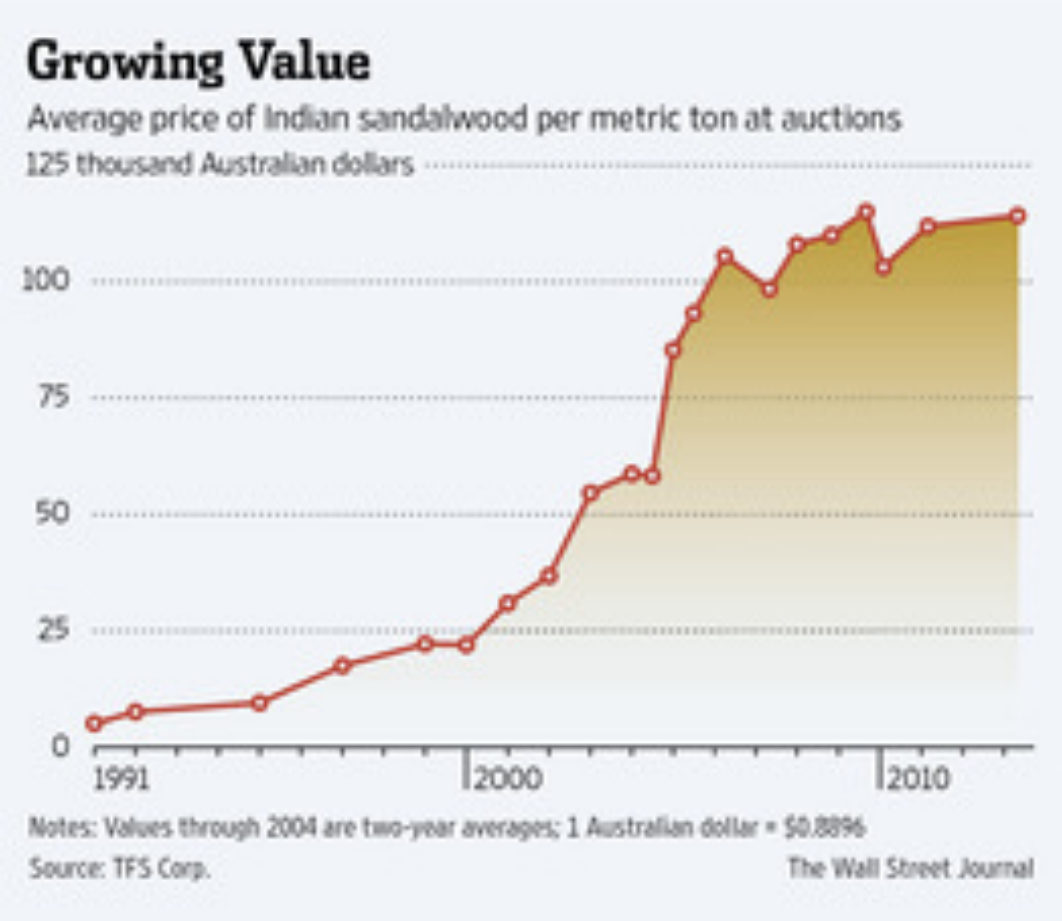
I conclude with a comment on the company's Margin of Safety – with a particular focus on the NAV of company-owned plantations compared to TFS's overall market capitalization. Barring an imminent collapse in the sandalwood price, TFC shares present very minimal downside potential at current prices.

Keep in mind that TFS Corporation is one of the Partnership's "Alternative Resource Investments". These particular holdings are resource-focused equities that are not heavily correlated with the Mining Cycle (i.e. Forestry, Farmland, and Aquaculture plays) and currently make up 20% of the Partnership's portfolio; my goal is to hit 30% within the next 12 months.

Sandalwood

Sandalwood is a medium-sized tropical, oil-bearing tree, known for its medicinal and fragrant properties. It has been processed and traded since ancient times and was once considered as precious as gold and pearls. While not well known by the investment community, sandalwood is in fact the highest-value wood product in the world. It is also in the midst of possibly the biggest bull run of any commodity (soft

or hard) globally. The below chart demonstrates this tremendous outperformance over the past 20+ years.



Sandalwood is unique in that it is currently seeing global demand for both ancient and brand new applications. Below is a list (courtesy of the TFS website) of the more traditional sources of sandalwood demand:

Carvings – Sandalwood heartwood has been used for centuries in carvings and furniture. These sandalwood pieces have a distinct/desired fragrance and are still purchased today for worship, artistry, and investment. Much of this demand comes from China and Taiwan.

Gullies – Gullies are pure heartwood sticks that are burned to create a household fragrance in the Middle East and Northern Africa.

Incense for Worship – Sandalwood heartwood and powder is used globally for daily religious rituals; as well as larger scale ceremonies such as weddings and funerals.

Traditional Medicine - Sandalwood has been used for thousands of years in traditional Chinese medicine and Ayurveda (the Indian-equivalent). It is reportedly used for a wide range of conditions including bronchitis, chronic skin conditions, and stress/anxiety.

Perfumes - Sandalwood makes a perfume last longer due to its fixative properties. It is a classical fragrance ingredient: a whopping 47% of all perfumes created since 1790 contain sandalwood notes.

Meanwhile, sandalwood bulls are already anticipating explosive new demand from the following two industries. I agree that these new sources of sandalwood demand certainly have the potential to alter the global sandalwood market very significantly. Whether this ultimately occurs will become clear over the coming 5-10 years.

Cosmetics - Cosmetic companies are increasingly turning to sandalwood as they become more and more conscious of providing products whose ingredients have been produced in an ecologically sustainable manner. Additionally, sandalwood cosmetics are effectively being marketed to consumers as being "more gentle on the skin" than inorganic makeup alternatives.

Pharmaceuticals – Due to sandalwood's natural anti-inflammatory, anti-proliferation, and anti-bacterial properties, it has been used for thousands of years in traditional medicine practices. Nowadays, major pharmaceutical companies are trying to harness these very same properties in skincare products focused on acne, eczema, warts, and other skin ailments.

In fact, TFS itself has a 50% joint venture with Nestle's pharmaceutical wing Galderma. As stated on TFS Corporation's website:

"Since 2009 we've worked to identify pharmaceutical uses for our Indian sandalwood oil. Our 50% Joint Venture company Santalis Pharmaceuticals Inc works exclusively on the research and pharmaceutical product development of our oil. Last year Santalis signed a long-term, exclusive licensing and supply agreement with Galderma, a world-leading global dermatology company…Today our TFS pharmaceutical-grade East Indian sandalwood oil is the secret to the acne-fighting formulas of Benzac Acne Solutions, a Galderma brand. Led by a team of experienced researchers and pharmaceutical professionals, Santalis has a broad clinical program for TFS pharmaceutical-grade East Indian sandalwood oil. A number of new dermatology products are currently being explored. Future launches are expected soon."

This JV arrangement will be discussed in greater depth later in this piece. Keep in mind that this is just one of many examples of sandalwood's recent uptake by pharmaceuticals.

The sandalwood supply story is just as interesting. Only 25 years ago, nearly 100% of the global sandalwood supply was harvested unsustainably from the wild. At the time, the lion's share of global supply came from India (as the country's sandalwood was renowned globally for its quality). However, lower quality sandalwood from Australia, Southeast Asia, and Africa were also significant sources of global supply.

However, by the mid-1990's, wild sandalwood stocks had reached a tipping point due to decades of unsustainable harvesting. In 1996, the Indian government implemented the first ever export quota on sandalwood. This had a dramatic effect on the world's largest supplier of sandalwood – while in 1995 it is estimated that around 12,000 tonnes were being harvested from India alone, this number had shrunk by 90% to 1,200 tonnes by 2007.

From roughly 1995 -2005, the same story played out elsewhere wild sandalwood was being exploited. By 2007, it was universally understood that in Southeast Asia "most of this resource had been eradicated in the last 10 years" (with production dropping below 500 tonnes per annum). Papa New Guinea production similarly plunged and it is now estimated that over 80% of "PNG Sandalwood" is fake. Queensland, an Australian state in the northeast of the country, was forced to reduce wild Sandalwood production by up to 70% between 2001-2007. Similarly dramatic declines in production occurred in both Western Australia and multiple Pacific Islands.

As demonstrated by the chart shared earlier, this major curtailment in sandalwood supply (along with steady increases in demand) resulted in dramatic price appreciation. Encouraged by the potential economics, multiple sandalwood plantations were formed in Australia right at the turn of the millennium. However, cultivating a sandalwood plantation is a serious long-term investment, requiring 14-16 years of intensive cultivation before commercial production can be reached.

By 2008 there were approximately 4,000 hectares of album and 12,000 hectares of spicatum planted in plantations in Australia. However, at that time actual production from this acreage was nonexistent – as the plantations were still years from commercial production.

That has all changed in the past few years as "first-mover plantations" (such as TFS Corporation, Rewards Group Ltd, and Santanol) have been able to conduct their very first commercial harvests. Australia is now responsible roughly 60% of global Sandalwood supply. The remaining 40% is split between illegally harvested sandalwood from the wild (~30% of global supplies) and legal yet very small-scale operations in countries such as India, Pakistan, Sri Lanka, and Nepal. Australia is expected to produce 80-90% of all sandalwood globally by 2025.

To my knowledge, TFS Corporation (ASX:TFC) is the only publicly traded Sandalwood plantation owner/manager – making it the most visible of its peers globally. However, there are a few privately held sandalwood plantations that have

either reached or are nearing commercial production. Given the minimal number of supply sources for this market (and the fact that any new sandalwood plantations will take ~15 years to reach commercial production), they are worthy of mention for this piece and are quickly summarized below.

WA Sandalwood Plantations – Founded in 2001, WA Sandalwood Plantations manages/owns sandalwood plantations in the Wheatbelt region of Western Australia. The company has plantations spanning over 10,000 hectares (for some comparison, TFS has just over 9,000 under management). The company should be reaching commercial production within the next couple years.

Santanol – The company manages ~2000 hectares (owning roughly 95%) of Sandalwood plantations in Northwestern Australia. The company counts KKR as one of its investors and reached commercial production in 2014.

Wescorp Holdings – Wescorp is a private holding company and the oldest major Sandalwood-focused company in Australia (founded in 1994). The company processes and markets over 2,000 tonne of Western Australian sandalwood per annum. Interestingly, the company doesn't technically "own" any acreage, but instead performs services associated with the harvest/sale of sandalwood owned by both (a) small private growers of sandalwood and (b) sandalwood owned by the Australian government.

Forest Products Commission –The Forest Products Commission (FPC) is a governmental organization and has approximately 6,000 hectares of sandalwood plantations under management. It is unclear when this sandalwood acreage will become commercial.

Rewards Group Ltd – This group actually went bankrupt in 2010 and is under the stewardship of Australian distressed-debt firm Ferrier Hodgson. However, the plantations (roughly 5,000 hecatres in total size) are still intact. It looks as if the plantations have recently reached commercial production, though it is unclear how "successful" the harvests have been (generally judged on both survival rate and overall volume).

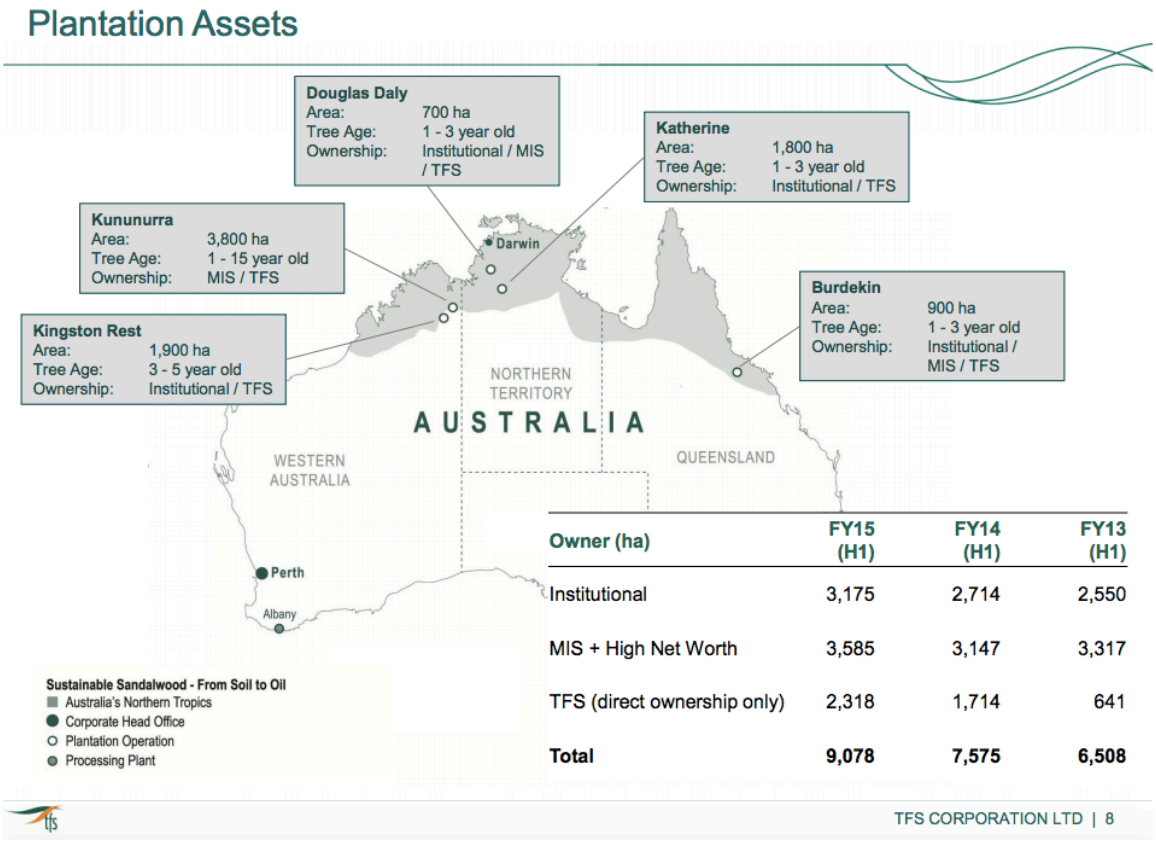
Even in light of the above sources of supply, the price of sandalwood is set to continue its rise for at least the medium term. For the time being, new Australian plantation production is merely replacing the rapid decline in supply from wild Sandalwood sources globally. Meanwhile, the citizens of both China and India (the two largest consumers of Sandalwood for traditional purposes) are becoming wealthier when compared to the rest of the world.

The wildcard of course is the potential for massive demand increases from the cosmetic and pharmaceutical industries – as consumers embrace more "sustainable" and "organic" products. The scale of the adoption remains to be seen – however, the fact that Galderma recently signed a long-term contract at $4,500 per kg for TFS

Corp's sandalwood indicates that pharmaceuticals are happy to pay far above market for quality oil.

Investment Thesis for TFS Corporation

TFS Corporation is currently the only publicly traded sandalwood vehicle in the world and sports a market capitalization of ~$500m (in AUD). The company owns/manages over 9,000 hecatres of Indian Sandalwood plantations in Northern Australia. A breakdown of the company's Plantation Assets is provided below (as of Feb. 2015 – there have been over 500 additional hectares planted since).



Owner (ha)	FY15 (H1)	FY14 (H1)	FY13 (H1)
Institutional	3,175	2,714	2,550
MIS + High Net Worth	3,585	3,147	3,317
TFS (direct ownership only)	2,318	1,714	641
Total	**9,078**	**7,575**	**6,508**

Additionally, the company has numerous sandalwood-focused downstream businesses including:

(a) the processing of heartwood into oil at the company's 100%-owned Mount Romance sandalwood factory

(b) the distribution of sandalwood heartwood and oil to over 30 countries globally

(c) the direct sale of sandalwood beauty products to consumers worldwide

(d) 100% ownership of Santalis – a sandalwood pharmaceutical firm that already has multiple licensing agreements with Nestle's pharmaceutical subsidiary Galderma

The company has been generating revenues since the acquisition of the Mount Romance processing facility in 2008. However, first serious cash flow began in late 2013 as the company commenced its first commercial sandalwood harvest. After 15 years of waiting, commercial harvests will now be conducted on a 12-18 month basis – the company's second commercial harvest is scheduled for completion in Q1 2016.

The company will be reporting earnings on August 28th and reaffirmed in early July that it expects to make at least $90m in NPAT (net profit after tax) over the trailing 12 months. This equates to expected earnings of ~$0.25 per share and indicates a paltry P/E of 6 at current share prices. Given the excitement regarding (a) future improvements in the sandalwood price and (b) TFS's unique supply/licensing agreement with Nestle's Galderma, I'm surprised that the company is still cheap according to traditional metrics. (One caveat is that the majority of trailing earnings will be non-cash gains associated with the growing value of TFS's company-owned plantations. This will be discussed in further detail later on this piece but, in short, the conservative sandalwood price assumptions currently used by management gives me reason to believe that these upward revisions in NAV will persist for multiple years.)

As a quick corporate background, TFS Corporation was founded in 1997 after cofounder and current CEO Frank Wilson learned about the potential for Indian Sandalwood to be grown/harvested in plantations. The company commenced its first plantings in the Ord Irrigation Area in Kununurra, Western Australia in 1999 – assisted by the Australian government's preeminent Sandalwood forester. TFS listed on the Australian stock exchange in 2004 and then embarked on a series of long-term investments including: (1) the purchase of the Kingston Rest property in Northeastern Australia in 2007, (2) the acquisition in 2008 of Mount Romance – the world's largest distiller of sandalwood oil, (3) the creation of sandalwood R&D firm Santalis Pharmaceutical Inc in 2010, and (4) the establishment of additional plantations in Queensland and the Northern Territory in 2011.

In 2014, TFS Corporation completed their first commercial harvest - a huge deal considering the massive lag time in the sandalwood plantation business between first investment and first revenues (14-16 years). Additionally, in August 2014, Santalis Pharmaceuticals signed a landmark product licensing and supply agreement with Nestle's Galderma.

After years of investor skepticism, a languishing share price, and the inability to generate any revenue from the company's premature plantations, TFS Corporation

has finally hit its stride as a company over the past 2-3 years. Positive developments include first revenues from actual Sandalwood production, continued improvements in corporate governance (the company added 4 credible board members in the first six months of 2015 alone), and increased investor attention globally (TFS counts Harvard and the Church of England as major stakeholders). Looking forward to the next 5-10 years, I expect shares of TFS Corporation to continue their outperformance for the following three reasons.

The first reason is that buying shares of TFS Corporation is one of the few ways for investors to get pure exposure to the sandalwood price (the only other options are to start your own sandalwood plantation or to pay companies such as TFS to plant/manage/harvest your own trees). Despite the fact that Indian Sandalwood is in the midst of the biggest bull run of any commodity globally (prices have risen at the astonishing rate of 15% annually for the past 22 years), the wood is still an obscurity to the vast majority of investors. This gives me confidence that we are not yet witnessing a speculative bubble in the price of Sandalwood and can expect inflated prices for at least the medium term.

Drawing the attention back to TFS Corporation specifically, the company OWNS (versus "managing" for investors) 3,167 hectares of sandalwood plantations – contributing to the company's NAV of ~$460m when last reported in Feb 2015. When you compare this number to the company's total market capitalization of ~$500m, it is quickly evident that there is very little speculative premium currently existent in the share price (despite the bright future of sandalwood, Santalis's licensing/supply agreement with Galderma, etc).

So how does this relate to TFS's pure exposure to the price of sandalwood? The company's net asset value is within 10% of the overall market cap, it is very reasonable to expect that continued rising sandalwood prices will readjust asset values of TFS-owned plantations upwards for the foreseeable future. Unless the investment community is willing to let shares of TFC trade below NAV per share, then the company's share price will be directly correlated with the sandalwood price going forward.

Further supporting this point is the fact that TFS-owned plantations seem to be priced on the company's balance sheet by up to 40% BELOW market prices. According to a Februrary 2015 report by Canaccord: *"New auditors are revising TFC's oil price assumptions to US$2,800/kg (previously US $2,500/kg) resulting in a material uplift in the book value of biological assets, and thus statutory NPAT guidance (FY15 NPAT >A$90m). We expect TFC will incrementally increase its oil price assumptions as sales persist above >US$4,500/kg oil."* This seems to suggest that company's NAV (and hence market capitalization) will continue to advance in the coming years even if sandalwood prices remain completely flat.

A second reason to own TFS Corporation is the potential for massive upside from sandalwood-based pharmaceutical products. Remember, TFS Corporation now fully

owns Santalis – which signed a massive licensing/supply agreement with Nestle's dermatology subsidiary Galderma less than 12 months ago. Despite the short duration of this JV partnership, tremendous progress has been made – Galderma has already having launched 4 OTC acne products and HPV/Eczema products are supposed to hit US shelves by the end of 2015. According to Canaccord: *"Orders by Galderma are running ahead of expectations, illustrating the positive take-up of its Benzac product by US consumers. We expect Galderma's marketing campaign to begin in the near term after increasing its distribution to ~30k retail stores. (previously 10k)."* All of the aforementioned products are licensed to Galderma from Santalis.

In light of the fact that TFS's market capitalization is roughly equal to the value of the company's net assets, it is clear that the market has assigned very little value to

this partnership. This is extremely surprising to me given the "double barrel upside" the Galderma deal represents for TFS Corporation.

On one hand, there is the supply agreement that TFS signed with Galderma at > $4,500/kg oil. To my knowledge, this is the highest priced sandalwood oil offtake agreement EVER and demonstrates the quality of TFS's plantation-produced Indian Sandalwood. This supply agreement alone has the potential to be a major boon for the company – depending on the success of Benzac and other sandalwood-based dermatology products, it is possible that we could see TFS selling its entire Sandalwood production to pharmaceutical companies at premium prices within 10 years. This is of course a best case scenario but the fact that pharmaceuticals are already willing to buy TFS sandalwood oil at significant premiums to the market bode very well for the company and the value of its assets.

On top of the supply agreement, Santalis/TFS Corporation is also receiving royalties on each unit of Sandalwood dermatology product sold by Galderma. This is beautiful in that it carries no risk for TFS, while allowing them to participate in future upside of the Benzac brand (which is the first major dermatology brand to embrace Sandalwood-infused products). The true value of this licensing agreement is hard to judge at current (at least half of the Benzac product line hasn't been launched yet) but will become increasingly clearer over the coming 5 years.

As the next section will demonstrate, barring a complete collapse in the price of sandalwood, shares of TFS Corporation have very limited downside at current prices. That said, what is to prevent this company from becoming a 5-10 year value trap if (a) sandalwood price rises stagnate and (b) the Benzac product line falters?

The answer is TFS Corporation's "plantation management business". Remember that only ~35% of the company's plantation acreage is actually owned by TFC shareholders. The rest is technically owned by retail and institutional investors - with TFS earning a management fee for the planting, maintenance, harvesting, and sale of a given investor's sandalwood trees. This means that, even if Indian Sandalwood prices peaked today, TFS Corporation could still earn hundreds of millions of dollars over the upcoming years by "managing" lots 100%-owned by independent investors. This seems likely given the voracious demand we've seen from investors globally over the past couple years. (Just in the past six months, both Harvard and the Church of England paid TFS Corp tens of millions of dollars to establish new plantations spanning over 500 hectares).

This influx of demand is allowing TFS to charge increasingly more for its "plantation management services". According to Canaccord: "Strong sales pipeline for institution and retail investors with management alluding to double-digit product price rises. We expect this to translate to margin expansion in future periods."

TFS Corporation's Margin of Safety

I hope the above section did a sufficient job of demonstrating the massive upside that TFS shareholders may see over the upcoming years. That said, for any value investment, it is equally important to understand the potential downside as well. This section will briefly discuss TFS Corporation's "Margin of Safety" at the current share price of ~$1.50 (in AUD). My conviction is that the potential for further share price downside is very limited for the following few reasons.

This reason is more qualitative than anything else. It is my opinion that TFS Corporation is still riding the "first mover wave" and will be able to do for quite some more time. As emphasized throughout this piece, the plantation business is a very unique one given the fact that it takes between 14-16 years to reach commercial sandalwood production from scratch. Additionally, TFS has spent nearly two decades developing proprietary techniques/technology in the following areas: (i) tree breeding, (ii) soil management, (iii) host tree development, (iv) irrigation, (v) processing, and (vi) market development with sandalwood end users. Both the time lag and 10+ years of proprietary research afford "first movers" (such as TFS Corp) a formidable competitive moat.

A second element of TFS Corporation's Margin of Safety is the tremendous base of shareholders and stakeholders that the company has cobbled together over the past 15 years. Starting at the top, TFS cofounder and CEO Frank Wilson is currently the largest individual shareholder – with a massive 16% stake in the company. This is both tremendously impressive from a personal standpoint and reassuring from a shareholder perspective (as management interests are well-aligned with those of shareholders). The second largest shareholder, Sydney-based Regal Funds Management, has proven itself to be a supportive/long-term shareholder that certainly "gets the plot". The fund currently owns ~7% of outstanding common shares.

Meanwhile, due to the unique business model of both "owning" and "managing" plantations, TFS has numerous additional stakeholders that each have a vested interest in seeing the company succeed over the coming years/decades. One obvious example is Nestle's pharmaceutical subsidiary Galderma which, depending on the success of the Benzac product line, could see itself buying a greater and greater percentage of TFS Corporation's overall sandalwood oil production (at premium prices of course). Other examples include institutional investors who directly own TFS-managed plantations – with the marquee names being Harvard's Endowment Fund (four separate investments into TFS-managed plantations since 2010), the Church of England, and UAE-based Emirates Investments Group (at least $100m invested since 2009).

Finally, shares of TFS Corporation at ~$1.50 can quantitatively be demonstrated to have a high Margin of Safety. The company's net asset value (last reported in February 2015) is ~$470m, compared to a total market capitalization of ~$500m.

Generally when a company's NAV covers over 90% its total market capitalization, shares of that company are considered to be a low-risk investment.

Further supporting this point is that a credible argument can be made that the value of TFS's "biological assets" (which comprise the majority of the company's NAV) are understated by up to 40%. Under the assumption that the market will not be willing to let TFS Corp's market capitalization trade too far below the company's NAV, the maximum downside I see at current levels is between 10-15%.

Past Featured Investments

Nevsun Resources (NYSE:NSU)

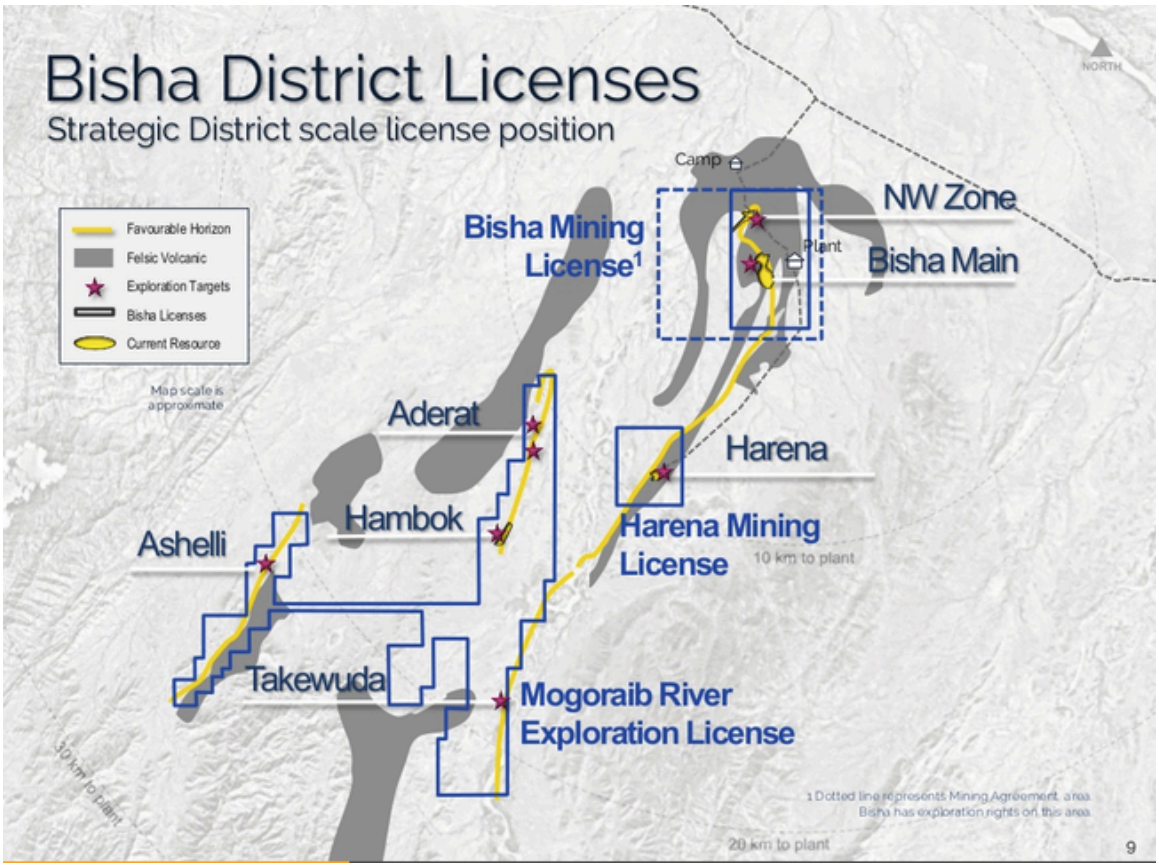
Featured In: **January 2015**
Partnership Average Cost per Share: **$3.55**
Current Market Price (July 15, 2015): **$3.57**

Nevsun was the Partnership's featured investment in January 2015. The company remains one of the lowest risk base metal plays and is an even more compelling investment opportunity today. Over the past 6 months, the company has reported milestones for the following: (a) the company's zinc expansion project, (b) regional exploration in the immediate vicinity of the Bisha mine, and (c) continued dividend payments.

Regarding the planned Bisha zinc expansion project, the company confirmed in late April that the zinc circuit is on track to be operational in H2 2016. More specifically, Nevsun management stated that "the project remains on schedule with engineering design 89% complete, procurement 60% complete, site construction 21% complete for an overall project progress of nearly 60%" and that $31m of the expected $92m capex had already been spent. Upon completion, roughly 60% of Nevsun's revenues will come from zinc (with the remaining 40% continuing to come from copper production).

Nevsun has also reported significant exploration progress over the past period. In late April, NSU reported new assay results from the Harena Deposit (located a mere 10km south of Bisha mine and processing plant). Highlights included hole HX-050 (1.66% Cu, 6.62% Zn, 0.41 g/t Au, 28 g/t Ag over 67.2 m) and HX-051 (1.09% Cu, 3.57% Zn, 0.43 g/t Au, 22 g/t Ag over 73.5 m).

Next, in mid-June, the company reported a grassroots discovery at the company's Asheli project, which is located 20km southwest of Bisha. The two discovery holes were MX-052 (2.29% Cu, 4.50% Zn, 0.45 g/t Au, 37 g/t Ag over 22.9 m) and MX-056 (1.26% Cu, 6.08% Zn, 0.28 g/t Au, 26 g/t Ag over 20.9 m). These results continue to suggest that Nevsun has discovered a full-fledged VMS district in the immediate vicinity of their already producing Bisha mine. See the below map for further context.



Nevsun paid a $0.04 dividend in both late March and late June. Given the company's current price, this equates to a dividend yield of nearly 5%. As the company has greater than $500m in working capital, it is highly probable that a minimum of $0.04 per quarter will continue to be distributed going forward for the indefinite future (despite commodity price concerns). Nevsun has paid a steadily rising dividend since mid-2011.

Looking forward to H2 2015, the company has multiple expected milestones. The first is a Revised Life of Mine Plan for Bisha. This updated mine plan will include underground mining scenarios for the future (Bisha is currently an open pit operation) and will be released sometime in Q3. The second expectation is that Nevsun will produce between 140-150 million pounds of copper in concentrate in FY 2015. Despite a two-week maintenance delay in April, the company is very likely to hit this guidance. Finally, the company recently raised its exploration budget from $10m to $15m due to the recent drilling success. It is now expected that Nevsun will drill 35,000m in FY 2015. We will see over the coming months if they are able to hit this number.

Nevsun continues to have very minimal downside due to the company's working capital position. In fact, Nevsun's working capital position of ~$500m covers roughly 80% of the company's market capitalization – one of the more extreme

ratios in the mining industry today. Keep in mind that the company generated $190m in free cash flow in 2014. Over the next 12 months, I expect NSU to generate between $125-175m in free cash flow (with the decrease compared to 2014 attributable to lower copper prices and upcoming funding commitments for the zinc expansion project). Even at the lower end of this range, Nevsun's working capital balance could eclipse its market capitalization in the next couple of years - unless the company's share price is dramatically re-rated by the market. This gives me confidence that Nevsun is possibly the best value investment currently available in the mining space.

Tsodilo Resources Ltd (CVE:TSD)

Featured In: **July 2014**
Partnership Average Cost per Share: **$0.86**
Current Market Price (July 15, 2015): **$0.94**

Tsodilo Resources remains a Partnership holding. The company is a Botswana-based prospect generator, with diamond, iron, and base metal interests across the country. That said, we are interested primarily in Tsodilo's joint venture agreement with copper heavyweight First Quantum Minerals – where First Quantum is currently funding a massive grassroots copper exploration effort in exchange for a 70% interest in TSD's Xaudum base metal project.

Remember that in 2014, First Quantum Minerals spent $14m at Xaudum defining drill targets and developing their geological context. The initial 2015 drill program (which commenced in Q2 and will continue through Q4 of this year) is an additional $6m on top of that. $20m in expenditures over two years by FQM is massive relative to Tsodilo's modest market capitalization of $25m.

While FQM's financial commitment has been encouraging, the JV has already been in progress for 18 months and Tsodilo shareholders desperately want to see the results of First Quantum's thorough grassroots campaign. It is my expectation that the day of reckoning (more specifically, first drill results from FQM) will occur sometime in Q4 of this year. I'd be very disappointed if this wasn't the case.

Remember that if First Quantum finds what they are looking for (FQM only focuses on copper deposits in excess of 3 billion pounds), Tsodilo will be valued in double digits ($10 a share plus) due to their 20% fully diluted stake in the project. Despite this massive potential upside and the fact that we will see results within months, there is currently no speculative premium reflected in Tsodilo's share price. This would certainly not be the case if we weren't in the depths of a bear market. If initial drilling hits copper intercepts of 1%+ over at least 10m, we could see Tsodilo's share price rise above $2 by the end of this year.

As this copper grassroots campaign progresses, Tsodilo continues to fund development work on its 75%-owned BK16 kimberlite diamond deposit. Aside from the First Quantum JV (which FQM is fully funding/operating), this is Tsodilo's main focus as a company. In a best case scenario, Tsodilo will be able to prove over the next two years that BK16 is a diamond project worth between $400-800m. According to analyst John Kaiser, if TSD is successful, "Tsodilo's 75% interest would be worth about $10 per share, though dilution to fund development would likely drop the target to about $4-$6 per share".

Tsodilo has made some solid progress at BK16 over the past six months. In Q1 of this year, the company completed a 20-hole drilling program with the objective of upgrading the company's geological model of the deposit. Additionally, in early April, the company announced the purchase of a DMS mobile plan from De Beers Botswana. This plant will be used in the bulk sampling program which is scheduled to commence in H2. Finally, within the past 2 weeks, TSD released the company's updated/refined internal geological model for the BK16 deposit.

Looking forward, Tsodilo's current milestone on the diamond front is a bulk sampling campaign that will commence in Q3 of this year and run through Q1 of 2016. Successful completion of this campaign opens the door to (a) an initial diamond resource estimate in Q2 2016 and (b) ultimately a diamond Feasibility Study in late 2017. The ultimate goal of this two-year program is to "demonstrate that a substantial portion of BK16 has a grade better than 10 cpht with a carat value in excess of $200 per carat that can be open-pit mined" (John Kaiser).

While it is clear that Tsodilo's diamond development activities at BK16 have the potential for significant value creation, it is important to reiterate that the Partnership is invested in TSD for exposure to FQM's copper exploration. If FQM doesn't find anything and gives up on Botswana in terms of copper, then it is highly likely that we will liquidate our Tsodilo position. The beauty is that the diamond development at BK16 provides a margin of safety in the case of a copper failure; and additional upside in the case of a FQM success.

Western Lithium Company (TSE:WLC)

Featured In: **January 2014**
Partnership Average Cost per Share: **$0.24**
Current Market Price (July 15, 2015): **$0.59**

It was again a very volatile 6 months for Western Lithium Company from a share price perspective. At the time of my last WLC update in Jan 2014, the company was trading at approximately $0.50 a share. However, by mid May, WLC shares were trading at ~$0.90 and with a market capitalization of over $100M (due to Tesla gigafactory speculation and general bullishness in the lithium space).

However, similar to H2 2015, WLC shares have since given up nearly that entire gain and are only 20% above where they were at the beginning of this year. This decline is attributable to the continued resource market misery, as no companies (regardless of quality) have been immune to the industry-wide swoon we've witnessed since Q2.

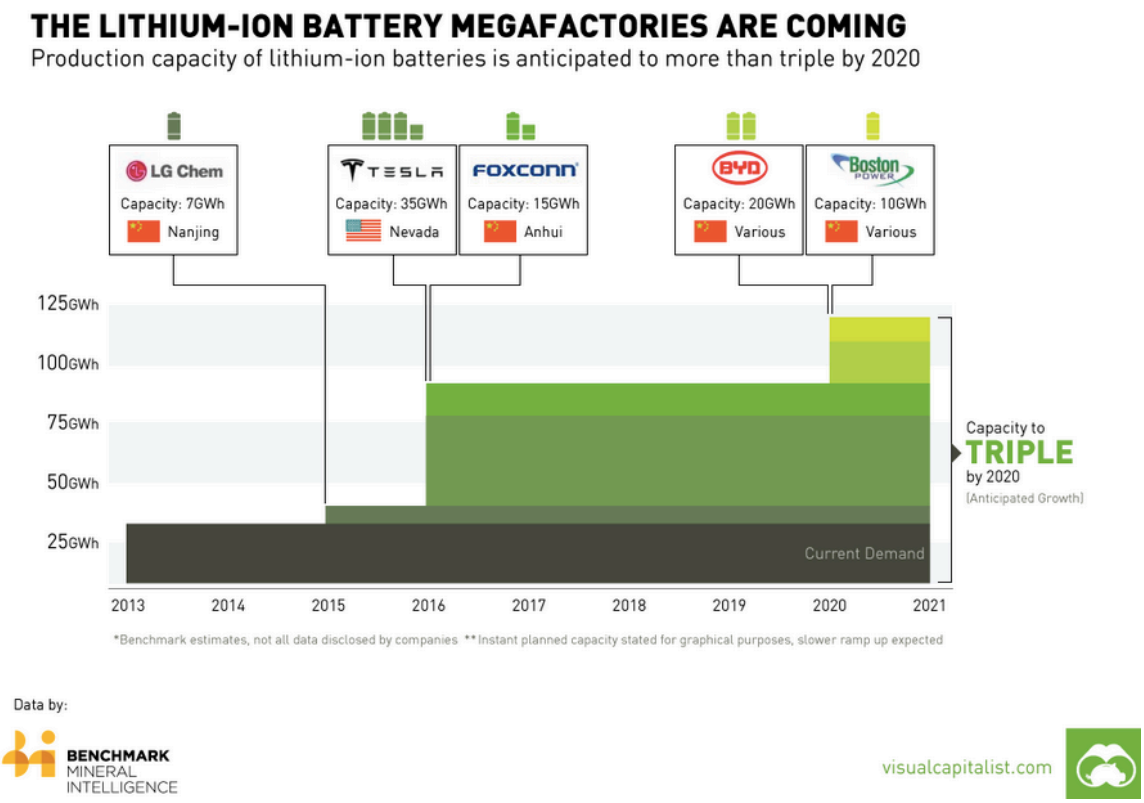
That said, from a company perspective, it has been a very significant half-year for WLC. Milestones include (a) first production of high purity lithium carbonate at the company's demonstration plant in Germany, (b) the addition of ~$8m in working capital through two separate placements, and (c) the commencement of organoclay sales to the "animal feed market".

However, the above milestones are dwarfed in importance by WLC's June 30th news release, which stated that Western Lithium would be merging with lithium development company Lithium Americas Corp (TSE:LAC). This all-stock transaction values Lithium Americas at roughly $80m. While the merger technically hasn't closed (WLC management indicates that September is their goal), I fully expect this merger to go through. The combined entity is expected to have a market capitalization of greater than $150m, as well as a working capital balance of ~$10m.

Interestingly, Lithium Americas (and their Argentina-based Cauchari-Olaroz Project) was a past holding of the Partnership - I even conducted a site visit to the property in mid-2012. At current lithium prices, the project is very much economic and, given the fact that LAC has already released a Feasibility Study and received full mining permits, construction in theory could begin as soon as the initial capex of $320m has been raised.

This "merger of equals" (and the addition of the Cauchari-Olaroz project to Western Lithium's development pipeline) will certainly affect future milestones. In fact, in the initial press release announcing the proposed merger, WLC management suggested that the development of the Kings Valley Lithium project would be deferred to accommodate the "fast-tracking" of Cauchari-Olaroz. More specifically, management stated the possibility of "potential revenues from Lithium America's Cauchari-Olaroz project under a contemplated two-year development timeline, and potential revenues from Western Lithium's Kings Valley project under a contemplated four-year development timeline".

The beauty of this arrangement is that Western Lithium should see first production from Cauchari-Olaroz in mid-2017 – precisely as Tesla begins to scale up production to commercial volumes at its Nevada gigafactory. In theory Western Lithium could supply Tesla with lithium directly but, in the absence of this exciting possibility, at the very least WLC will be able get a foothold in the lithium market far faster than if they'd focused on the Kings Valley project alone. Additionally, first production at Kings Valley, which is expected in mid-2019, will coincide very nicely with the next wave of lithium ion battery plants (see the below graph for further details).



If Western Lithium hopes to reach first production at Cauchari-Olaroz by mid-2017, the company needs to hit multiple milestones over the upcoming six months. The first is the closing of the proposed merger, which is expected to occur sometime in September. Next, the company must procure construction financing for the $320m project – far from a small task in today's challenging market (whether Lithium Americas' current partner POSCO will participate in the financing is unclear). And finally, the company must commence construction by the end of the year – as brine operations take a minimum of 18 months to get off the ground. Whether they hit these milestones remains to be seen over the coming period.

Meanwhile, the combined company will continue to use some working capital to (a) scale organoclay production and (b) pilot test lithium production from Kings Valley hectorite clay. Regarding the organoclay business, the only major milestone over the next six months is the potential for a major contract with a well-known European chemical firm. I expect an update on this front by the end of Q3. In terms of potential future lithium production at Kings Valley (Western Lithium's original project), there are two milestones expected in the coming months: (1) an update on the lithium hydroxide circuit tests currently being conducted in Germany and (2) an update on "several tons" of lithium product samples that have already been sent to prospective customers. Despite the fact that lithium production at Kings Valley will not be occurring until later in this decade, the project is still of tremendous importance to WLC and has the potential to create major value for long-term shareholders.

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) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2012**
Partnership Average Cost per Share: **$0.48**
Exit Price: **$0.28**

Having to liquidate STB was a major disappointment for me - I still like the company's management, am extremely impressed with the Colluli resource, and believe in the future of Eritrea (the Partnership continues to hold a large position in Eritrea-based Nevsun Resources). That said, the economics demonstrated by the March PFS were a surprise to me. I understood that Eritrean National Mining Company (ENAMCO) did adjust the terms of the deal about 2 years ago and that they had become more onerous.

However, despite the adjustment in share structure, I still expected STB's share of the NPV (~30%) to be roughly equal to Colluli's estimated capex. This was a major miscalculation on my part - I was shocked to see that in stage 1 STB's share of the NPV was less than half of the initial capex (which they are 100% responsible for funding). This is not an "economic" opportunity from a Western perspective, there's no denying that.

I still see this mine reaching production due to a Chinese/Hong Kong based entity eventually taking over STB and dealing directly with the Eritrean govt. STB shareholders could still make money in this scenario, but as of now I don't see a ton of upside. Additionally, if Asian funding sources fall through for any reason, this mine will not be financed by Western sources (due to the economics and general fear of Eritrea).

I will continue to monitor the situation and still hold hope that Eritrea will readjust the deal to make the economics rosier for STB. If there is a readjustment, I'll be right there analyzing it. But for the time being, even though the company is admittedly making good progress towards construction (with a Feasibility Study for Colluli expected in upcoming months), I don't see much upside given the current agreement with the Eritreans. We'll see how things play out, but for the time being, the Partnership has completely divested its STB position.

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

Featured In: **January 2012**
Partnership Average Cost per Share: **$0.97**
Exit Price: **$0.80**