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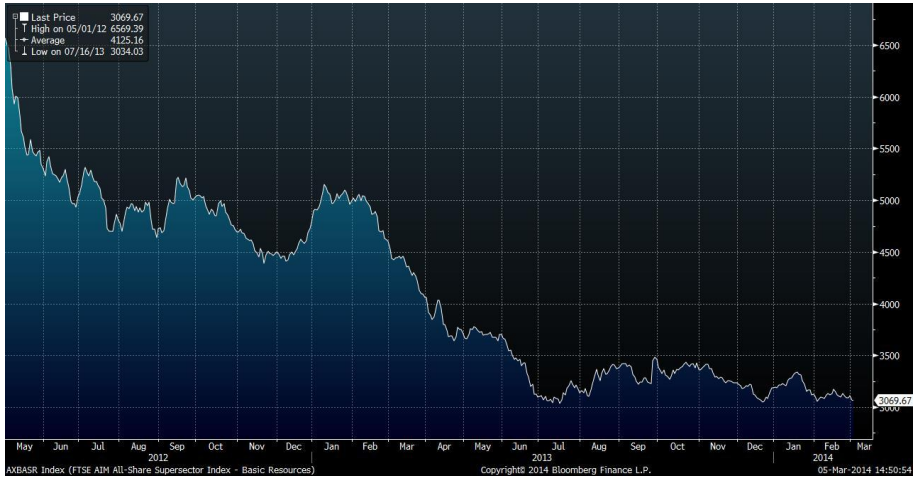
Profitable strategies for investing in natural resource shares in 2014

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Background

- Bachelor’s degree, Economics
- Investigative reporter, Stockwatch, Vancouver
- Staff writer, The Northern Miner, Toronto
- Joined Investors Chronicle May 2012

Resource shares





Aim mining index:
-53% from May 2012 to March 2014

Aim oil & gas index:
-31% from May 2012 to March 2014

Wider market performance



Aim all-share index:

+15% from May 2012 to date, or +33% trough to peak

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Commodity calls

Right

- Exited >10 very speculative mining share tips in 2012
- Buy gold ahead of QE3: ‘High time to buy Highland Gold’, July 2012, 'Gold comes to life’, May 2012
- Sell platinum miners: ‘Platinum loses its shine’, June 2012, ‘Lonmin poised for cuts’, July 2012
- Gold price heading down the pan: 'Gold loses its shine', February 2013; 'Have gold and silver peaked?', February 2013
- Copper entering oversupplied territory: 'First Quantum a deal away from trouble', 7 February; 'Copper price threat to First Quantum', 7 March.
- Turn your back on iron ore: 'Iron ore warning', 8 March; 'Bet against iron ore with Fortescue', 8 March.
- Aim mining companies running out of money: 'The evolution of small company finance', 11 April.
- Diamonds offer long-term value: 'Let Diamonds dazzle your portfolio', 5 June.
- Bear market in metals and mining has not run its full course yet: 'The Ultimate Resources Shares', 7 June.

Wrong

- Sold out of gold too late, at around $1,600 an ounce: 'Gold stuck in a holding pattern‘
- Missed gold’s latest rally from $1,200 an ounce to $1,350
- Missed initial 2014 rally in large-cap mining shares: “Fresnillo worth a contrarian bet’, ‘Anglo in takeover crosshairs’
- Incorrectly predicted iron ore prices to keep falling and instead they rallied

Share tips performance

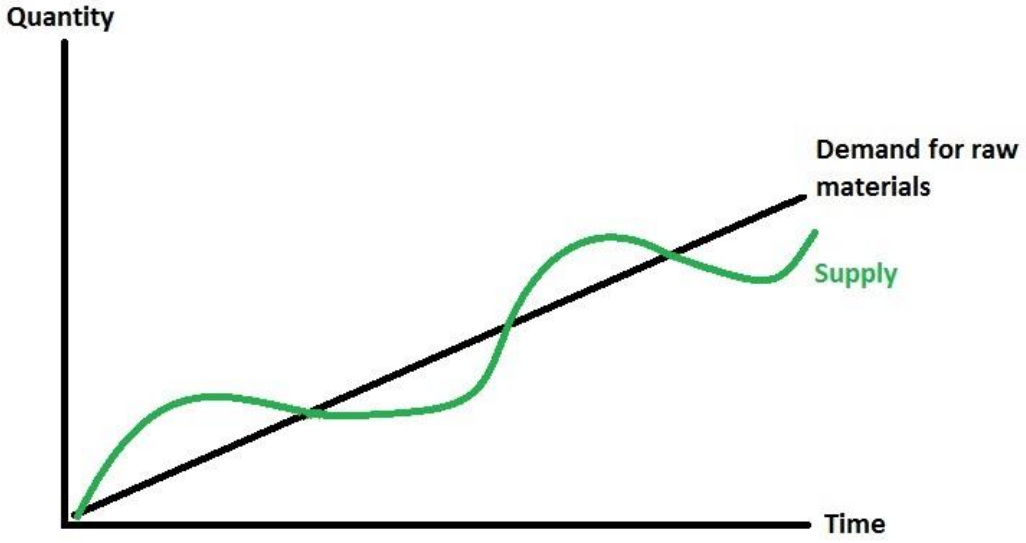
Total money-weighted return: 23% Simple return: 8%

*Includes dividends but does not account for brokerage fees, as of 5 March

Company Name	Tip type	Open or closed	Performance (%)
Central Asia Metals (CAML)	Buy		104%
West African Minerals (WAFM)	Sell		82%
Parkmead Group (PMG)	Buy	Open	60%
Lonmin (LMI)	Sell		57%
Ithaca Energy (IAE)	Buy	Open	48%
Metminco (MNC)	Sell		42%
Sirius Minerals (SXX)	Sell	Open	40%
Sunrise Resources (SRES)	Sell		36%
Fortescue Metals (FMG-A)	Sell		34%
Rambler Metals & Mining (RMM)	Buy	Open	30%
Alkane Energy (ALK)	Buy		29%
Petra Diamonds (PDL)	Buy	Open	28%
Hydrodec (HYR)	Spec buy	Open	26%
First Quantum Minerals (FQM)	Sell		21%
Pan African Resources (PAF)	Buy		18%
EnQuest (ENQ)	Buy	Open	16%
Kefi Minerals (KEFI)	Buy		16%
Valiant Petroleum (VPP)	Spec buy		16%
Afferro Mining (AFF)	Buy		4%

Company Name	Tip type	Open or closed	Performance (%)
Wentworth Resources (WRL)	Buy	Open	0%
Highland Gold (HGM)	Buy		-1%
Ophir Energy (OPHR)	Buy	Open	-4%
Enteq Upstream (NTQ)	Buy	Open	-6%
Lekoil (LEK)	Spec buy	Open	-6%
Cairn Energy (CNE)	Buy		-7%
Salamander Energy (SMDR)	Buy		-13%
Maple Energy (MPLE)	Buy		-15%
Leyshon Resources (LRL)	Spec buy		-21%
Providence Resources (PVR)	Buy		-21%
Tethys Petroleum (TPL)	Spec buy	Open	-28%
Northcote Energy (NCT)	Spec buy	Open	-39%
Aureus Mining (AUE)	Buy		-42%
Iofina (IOF)	Buy		-46%
Atico Mining (ATY-V)	Spec buy		-48%
Strategic Minerals (SML)	Spec buy		-61%
Tangiers Petroleum (TPET)	Spec buy	Open	-67%

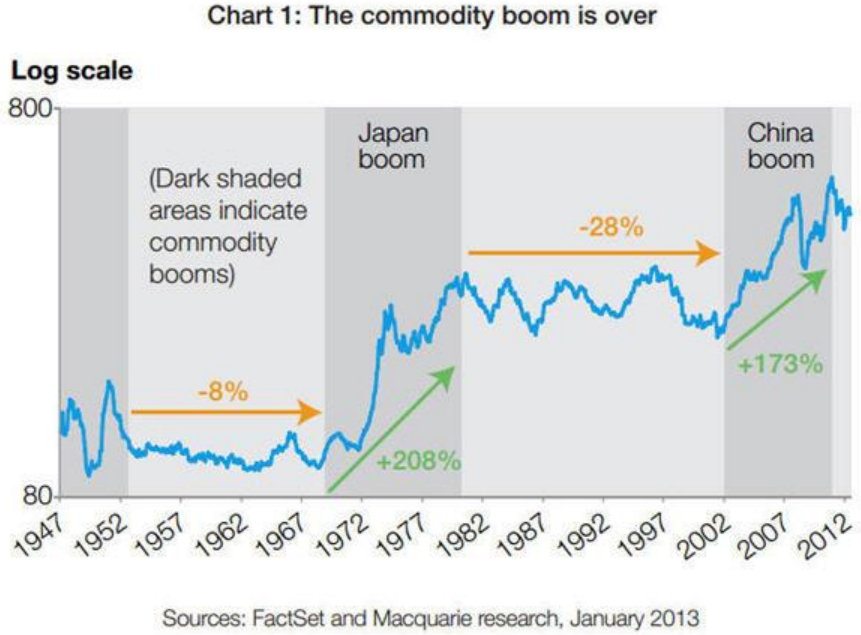
Commodity cycles



- Supply is relatively inelastic over the short term
- Mining is a long-term business
- Building a mine takes many years

Previous cycles

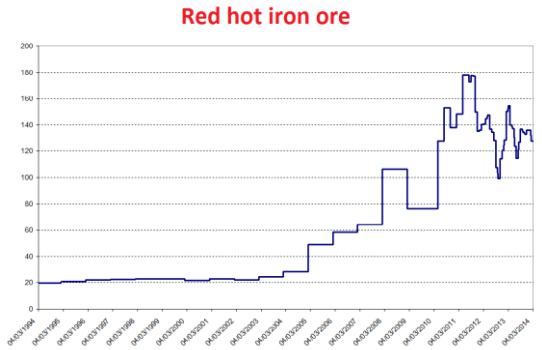


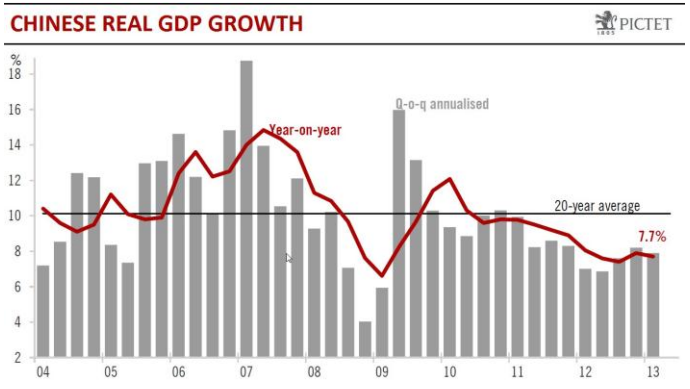


The Supercycle

"This time is different"

- China
- BRICS & global demographic shifts
- 2008 credit crunch
- Low interest rates, QE





Supercycle sunset

"We believe that the tail wind of ever-higher commodity prices, which has been the principal driver of share prices, is now over" -Heath Jansen, Citigroup, May 2012



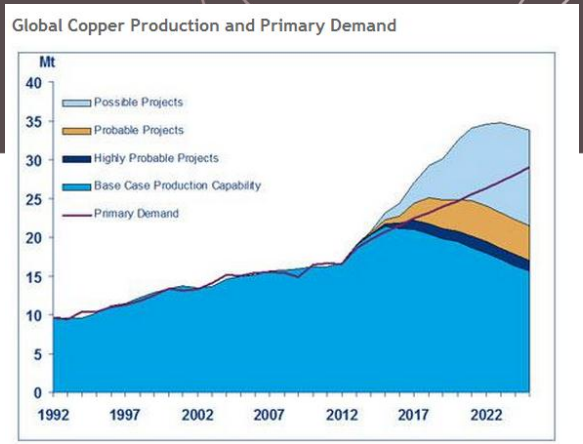
The price of iron ore has fallen from $180/tonne to $105/tonne during the past two years

1. Chinese GDP growth slowed and is becoming less commodity-intensive
2. Supply has caught up with demand
3. Costs of running and building mines has soared

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What now

- Have we reached the bottom of the cycle?
- Much depends on China



Source: Wood Mackenzie's Copper Market Service, 2012

"The fundamentals are pointing to a potential slide in international oil prices in 2014/15 reflecting strong growth in non-OPEC supply and moderate demand growth. We are leaving our Brent 2014 forecast of $103/bbl (down 5% on 2013) unchanged. We forecast a further dip to $98/bbl for 2015."
-**Peter Dupont, analyst, Edison Investment Research**



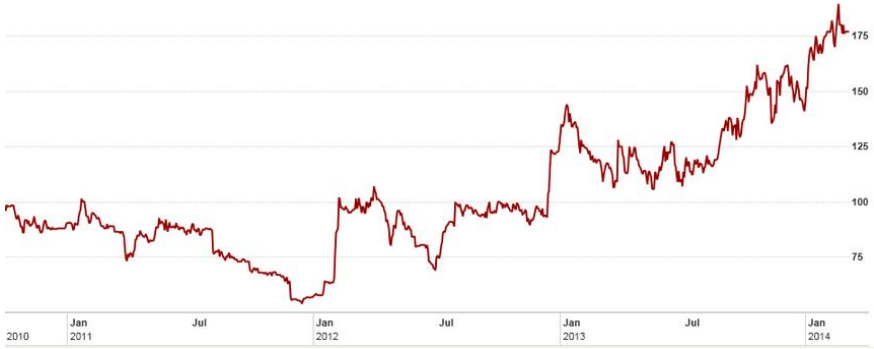
Investment strategy

- In the absence of rising commodity prices, investors will have to turn to exploration or project development to drive returns
- Exploration can create value very quickly, but is higher-risk
- Selectively target lowly-rated companies which are growing production and have exploration upside
- Large-cap miners are cost-cutting and improving cash flow

Case study #1

- Central Asia Minerals (CAML), a small Kazakhstan-focused copper miner
- Production has increased from 5,000 tonnes in 2012 to 11,000t in 2014
- Shares have re-rated from 3 times forecast earnings to current multiple of 11

Central Asia Metals – share price performance



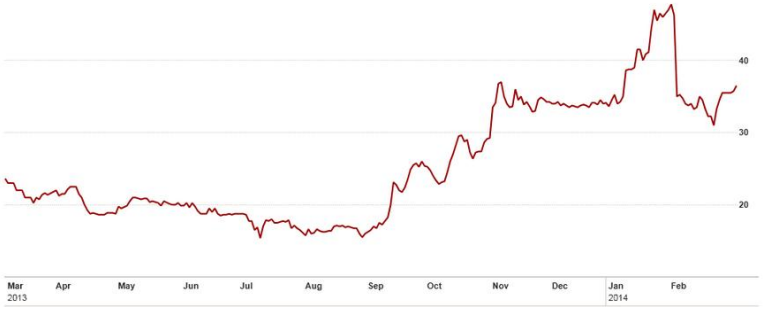
+125% in two years

Case study #2

- President Energy (PPC) is about to drill some high-risk oil exploration wells in Paraguay

- Loss-making with very little production, but recently raised $51m to drill 3 wells

- First well is targeting ~400m boe and, if successful, could be worth up to $3.7bn, according to RBC



President Energy

Market capitalisation: £140m

Share price: 37p

EnQuest (ENQ)

- North Sea oil producer
- 2013 production of ~23,500 bopd
- Output forecast to grow to 26,000 bopd in 2014, 33,000 bopd in 2015



Market capitalisation: £1.2bn

Share price: 146p

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EnQuest



- Alma/Galia development project expected to come on-line in the next few months, adding around 13,000 bopd per year net to EnQuest

- Forward PE of 7 for 2014, falling to less than 6 for 2015. Historical multiple is 11-12.

- Kraken heavy oil field - potentially transformational, but a bit of a wait. Could add 30,000 bopd net from 2017

Bear points: project development risk, debt pile, exposure to oil price fluctuations

Ithaca Energy (IAE)

- North Sea oil producer
- Current production of ~11,000 to 13,000 bopd
- Expected to rise to ~25,000 boepd in 2015



Market capitalisation: £511m

Share price: 153p

Ithaca Energy

- First production from GSA (Greater Stella Area) development in North Sea expected to come on-line “at the end of 2014”, adding 16,000 boepd net

- First two production wells substantially exceeded expectations

- Forward PE for 2015 of just 3.6, rejected multiple takeover approaches in 2012

Bear points: project execution risk, high level of gearing, oil price risk

Rambler Metals (RMM)

- Aim-listed miner with operations in eastern Canada

- 2013 production of 3,900 tonnes copper, 3k oz of gold and 24k oz silver



Market capitalisation: £44

Share price: 29.5p

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Rambler



- Fiscal 2014 production expected to rise ~60% to 6,400 tonnes copper, 5k oz gold and 35k oz silver

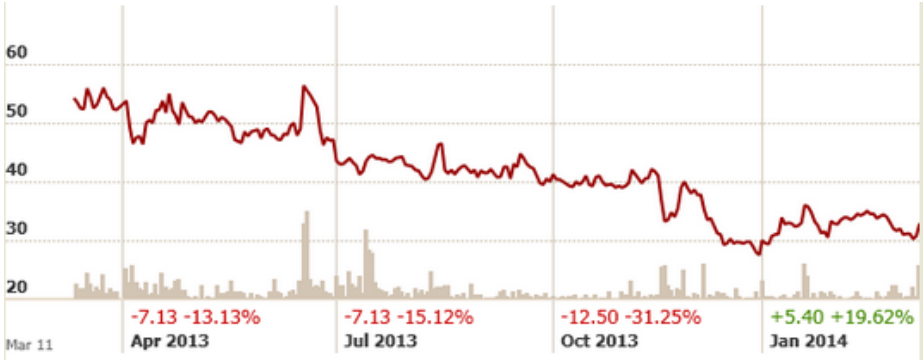
- On 28 February Rambler paid off the last of its interest-bearing loans. Now has C$5.5m in cash. Exploring three projects within trucking distance.

- Trading on a forward PE of 4.5 ahead of interim results on 28 March

Bear points: Relatively high operating costs of ~$2/lb Cu; concerns over short mine life

Tethys Petroleum (TPL)

- Oil explorer and producer with projects across Central Asia
- Large cash pile
- High-impact exploration backed by producing assets



Market capitalisation: £98m

Share price: 33p

Tethys



- Oil & gas production in Kazakhstan should total ~3,300 boepd in 2014, ~4,400 boepd in 2015 => pays the bills and covers drilling costs

- Chinese private equity fund expected to pay $75m (£47m) in 2014 for half of Kazakh assets. Drilling of 422m-barrel Klymene prospect in mid-2014.

- Tajikistan joint venture with Total SA and CNPC
  - Tethys holds 33% interest after selling rest for $63m and carry on future costs
  - Enormous exploration potential in deep salt layer: 114 Tcf & 8.5bn barrels of oil
  - Seismic program this year followed by drilling in 2015

Bear points: substantial political risk; exploration is very high-risk

Heritage Oil (HOIL)

- Nigeria-focused oil producer
- Acquired 30% interest in onshore assets from Shell for $850m
- Dramatically increasing production



Market capitalisation: £750m

Share price: 256p

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Heritage Oil



- Proved oil reserves of 1.1bn barrels; eight producing fields and associated infrastructure; revenues of $465m net to Heritage in 2013; tax holiday for 5 yrs
- After a blip in Q2, gross production climbed to 50,000 bopd in Q4 from around 35,000 bopd prior to the sale; expected to ramp up to 100,000 bopd next year and close to 150,000 bopd in 2016
- “The shares are trading on a miserly 3.3 times earnings forecasts of around 79p and that’s after the share price surge since the turn of the year.”

  – Simon Thompson

Bear points: substantial political risk; tax holiday will end in 4-5 years

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