

Grafton Resources

A Natural Resources
Finance House

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Overview

- Grafton Resources (Grafton) focuses on developing and realising a small portfolio of selected assets
- Grafton has a policy of only investing in ventures that have the potential to be world class
- This allows the management team to focus on a small number of projects, and maximises visibility for shareholders
- Additionally, the small portfolio means that any individual success has a significant percentage effect on the company's net assets

Overview

- Grafton began as a resources fund (Grafton Resource Investments Ltd.), and had a NAV per share of \$43.82 on the 31st December (2,033,140 shares outstanding)
- Following a proposed RTO with Zoloto Resources (ZR) Grafton has evolved as an incubator in the resources sector. Grafton is concentrating on marshalling assets (in excess of \$100m pre-merger) to develop its portfolio of resource companies to a stage where they can be:
 - A. Sold to third parties
 - B. Listed on a recognised stock exchange
 - C. Developed so that they are cash generative for the group
- Following the RTO, Grafton will have a listing on the TSX Venture exchange, with intention of progressing to the main board.

Investment Case

- Through some of its main investments, Grafton has a net interest in:
 - A. 1.20bn bbls of oil (250 million recoverable)
 - B. 33M tonnes of iron ore
 - C. 23,000 hectares of rare fallen lumber
 - D. 50% of Bulgaria's largest independent water project
- Excluding the top 7 ventures outlined below, the remaining companies in Grafton's portfolio are valued at ~ US\$27m, with 80% listed on major stock exchanges

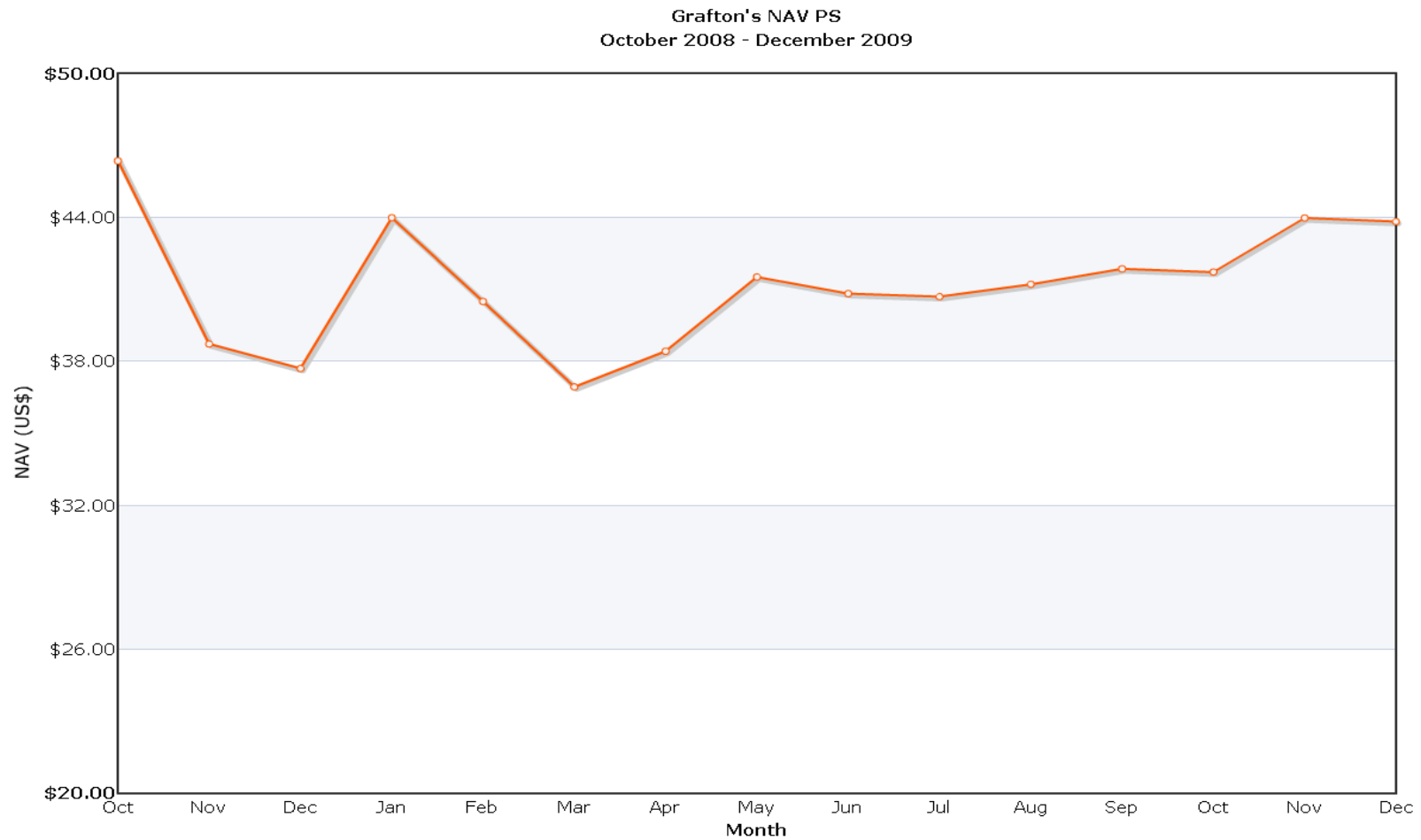
Top 7 ventures (30/11/09)

Firm	Cost	% owned	Product
Madagascar Oil	\$14,555,718	12.7%	Oil
Hydrostroi Bourgas	\$13,848,600	50%	Water
Canada Gold	\$10,010,000	50%	Gold
Felix Lumber	\$8,231,579	14%*	Timber
SAFM	\$7,273,400	22%	Iron Ore
Compostela Mining	\$3,286,716	15%	Gold
Indian Minerals	\$2,915,069	17%	Gold

* Grafton's interest will rise to 46% without further payment, assuming liquidation of Felix's holding in Grafton

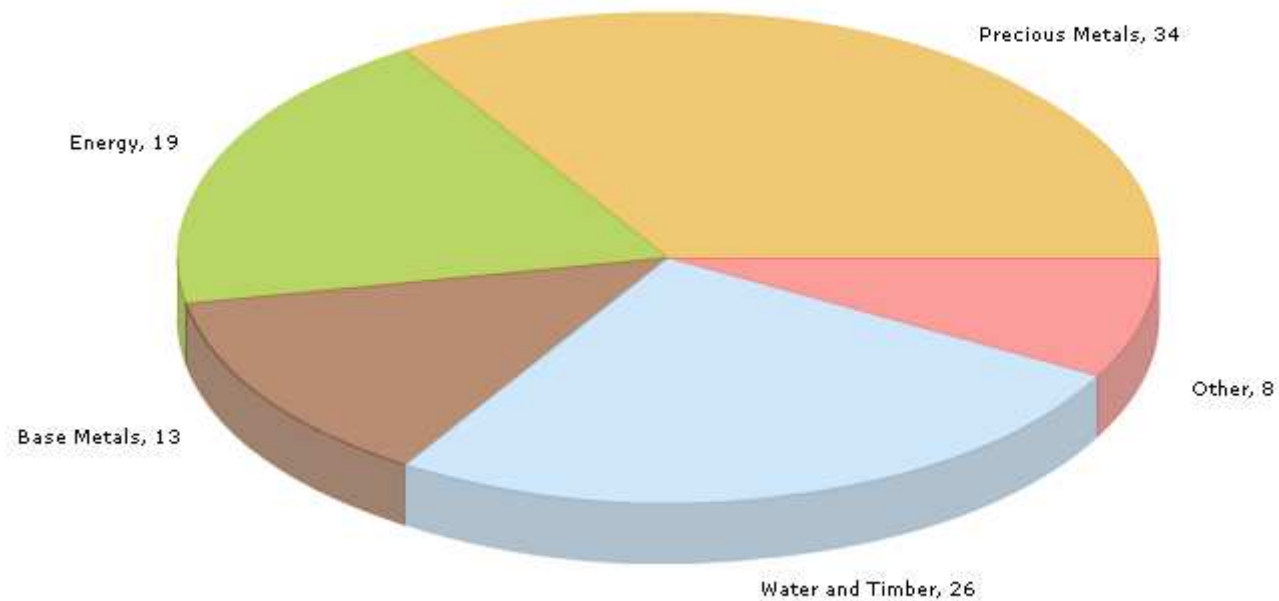
Grafton Resource Investments Ltd

NAV per share



Grafton Resource Investments Ltd's Commodity Breakdown

Commodities Breakdown as a Percentage of Total Portfolio (31st December)



Pro Forma Balance Sheet for Grafton Resource Investments Limited

Total assets	\$106.36m
Value of convertible notes	\$7.00m
Short term liabilities	\$0.62m
Total net assets	\$98.74m

Directors and Management

- **Peter Seabrook – Director**

Peter is a graduate of Oriel College, Oxford, and has over twenty years experience as an investment manager. He joined Fleming Investment Management Limited in 1984 and became a director of Robert Fleming Holdings Limited in 1994. During his tenure there he was appointed UK chief investment officer. In 1997 Peter moved to Societe Generale Asset Management in a similar role, and after leaving in 2002 he held the post of chairman at Ocean Resources Capital Holdings until 2007.

- **David Hutchins - Director**

David has 20 years' experience as a resources analyst and fund manager. His career began with the Melbourne Stock Exchange in 1979 and subsequently became an executive director of M&G Investment Management. He headed the International Desk at M&G Investment Management from 1995, where he was concurrently responsible for M&G's investments in the precious metals and commodities sector globally. He was a founding director of Resources Investment Trust plc at the launch in January 2002 and is a non-executive director of Rivington Street Holdings Plc and a non-executive director of Australian listed SA Metals Limited.

- **Robert Madigan - Director**

Robert has twenty years of Arctic and cold climate engineering and project management experience. He is a civil engineer by training and received his B.Sc. from the University of Alberta in 1986. He was a director of public exploration company Starfield Resources from 1997 to 2007, and prior to that worked extensively in northern Canada. During the last ten years he has focused on projects in the far east of Russia, managing a team of over 400 employees. For the last four years, Mr. Maddigan has been the managing director, President and CEO of Zoloto Resources (TSX.V: ZR)

Directors and Management

- **Kjeld Thygesen – Fund Manager**

Kjeld is a graduate of the University of Natal in South Africa and has 30 years experience as a resources analyst and fund manager. His resume includes managing a portfolio of South African mining companies for African selection trust, working with James Capel and Co. in London as part of their highly rated gold and mining research team, and manager of N M Rothschild & Sons' commodities and Natural Resources Department in 1979. In 1987 he became an executive director of N M Rothschild International Asset management Limited, subsequently co-founding Lion Resource Management Limited, a specialist investment manager in the mining and natural resources sector. Kjeld has been a director of Ivanhoe Mines Ltd since 2001 and served as Investment Director for Resources Investment Trust PLC from 2002 – 2006.

- **David Cather – Consulting Mining Engineer**

David graduated from the Royal School of Mines, Imperial College, and has extensive experience in the development and management of a wide range of resource projects. He has held senior executive positions at operational and line management levels with both De Beers and Anglo American. David is a Chartered Engineer, a member of IoM3, and a Competent Person. He is a director of Compostela Mining Limited, an exploration company with copper/gold porphyry assets in the Philippines.

- **Willie West – Consultant**

Former Partner, Potts West Trumbull, Members of the Australian Stock Exchange. Sold to Prudential Bache 1990. Venture capital investor together with clients in Eastern European start-ups, including \$100 million raise for Hungarian Investment Co. Ltd., in conjunction with John Govett in 1990; the provision of \$500 million of “seed capital” for the development of early stage resources in Eastern Europe and the former Soviet Union. Latterly a founder of Resources Investment Trust plc and thereafter the development of a \$200 million venture capital portfolio in the resource sector.

Grafton Resources' portfolio

- Grafton's portfolio contains over 50 stocks, but its value is heavily weighted towards core development projects
- The top 7 holdings in the portfolio, accounting for ~72% of the fund, are outlined below

Madagascar Oil (MOL)

- Oil exploration company in Madagascar with PSC's over two major blocks -Bemolanga and Tsimiroro
- DeGoyler & McNaughton and Netherland Sewell have produced independent assessment of the resources for Bemolanga and Tsimiroro respectively
- Bemolanga contains an estimated resource of 9.8bn bbls of bitumen (2.5 bn bbls recoverable). Madagascar Oil owns 40% (1.0 bn bbls) after farming out 60% to TOTAL for \$100m.
- Tsimiroro contains an estimated resource of 5.5 bn bbls of which 0.94 bn bbls classified as "Contingent". MOL owns 100% of the field.
- MOL therefore has a net resource of 1.94 bn bbls. Grafton own 12.71% of MOL and so can be said to 'have a net interest in ~ 0.25bn bbls of heavy oil.

Hydrostroi Bourgas

- Partially built water reservoir near Bourgas, Bulgaria – a water stressed area
- Asset acquired by H-B.
- Debt finance being arranged for completion of dam, water treatment plant and infrastructure
- First sale of water anticipated in Q2/11. Annual volume average 6.5mm^3 .
- $\text{NPV}_{12} = \text{€}34.6\text{m}$. Annual free cash flow estimated at $\text{€}5\text{m}$.
- On 8x multiple, this gives a FV of $\text{€}40\text{m}$. Grafton's 50% share valued at $\text{€}20\text{m}$.

Canada Gold

- TSX listed gold toll treatment project in Northern Peru centred on buoyant artisanal sector which produces circa 3000tpd of high grade (>15g/t) ore
- Grafton has a 50% interest in the project
- Capex of US\$17m for initial 300tpd plant (expanded to 600tpd in year 3)
- $NPV_{15} = \text{US\$43m}$ @ \$850/oz Au. Breakeven @ \$250/oz Au and 300tpd production
- Strategy to integrate to upstream source of ore focussing on high grade and most productive sources

Felix Co., S.A.

- Felix Co., S.A. (Felix) have, under licence and option, 50,000 hectares of the hurricane hit North-West region of Nicaragua, from which they are extracting rare hardwood timber
- Felix expects the project to conclude by 2015, with cash returned to investors. Total cash flow for the project is estimated at circa \$100m
- Grafton currently owns circa 14.2% of the project, which will increase to 46%

South American Ferro Metals

- South American Ferro Metals (SAFM) has, through its fully owned subsidiary, acquired the rights to the Ponte Verde property in Minas Gerais, Brazil
- The Ponte Verde property has been partly drilled with the geology well understood, and contains an estimated 150 Million tonnes + of hematite rich itabirite, grading 39% in situ, increasing to 65% on beneficiation
- A further drilling programme will bring the resource to JORC standard in 2010
- Based on a price of US\$ 40 per tonne at the mine gate, cash costs of around US\$ 12.0 per tonne and an output of 3.0 Mtpa, this generates an estimated enterprise value of US\$ 250- 300 million
- Grafton currently owns 22% of SAFM

Compostela Mining

- Gold exploration project adjacent to infamous Mt Diwalwal gold rush area, Mindanao, Philippines
- Unique “Operating Agreement” implemented over 950 ha of tribal land
- Drilling commenced in Q4/09 which has confirmed high sulphidation mineralisation associated with gold and base metals. Initial set of assay results imminent.
- Viewed as similar potential to Medusa Co-O Mine – 50km to north. 100kozpa. Market cap of \$600m.
- Deal in progress to merge with ASX competitor in Q1/10 with initial combined market cap of A\$25m

Indian Minerals Corporation

- Data regarding the Kolar gold fields, located in southern India, indicate a world class gold asset, with an estimated resource of ~10Moz Au
- Indian Minerals Corporation (IMC) has a JV with the United Mine Employees Co-operative Society with the first and last right to acquire the mining leases and assets of the Kolar gold fields
- Short term cash flow is possible through a low capex tailings project, and a JORC resource of 10Moz would be worth over \$500m
- Grafton owns approximately 17% of IMC

Summary

- Following the RTO, Grafton will become a listed entity on a major exchange, with more than US\$100m of assets
- The company will concentrate on developing its core projects, using cash obtained via the sale of its smaller holdings for working capital purposes, and to increase investment in current ventures