

13 June 2014

Upcoming Company Events

16 June

17 June

EGM: DJS  
Ex-Div: TGA

18 June

19 June

Update: AIO

20 June

Stats: SYD

Upcoming Economic Events

16 June

EZ: CPI, May  
US: Empire St mfg Index, Jun  
US: Housing market sent, Jun  
US: Industrial prod, May

17 June

EZ: Labour costs, Q1  
EZ: ZEW investor sent, Jun  
UK: CPI PPI, May  
US: Housing starts, May  
US: PPI, May

18 June

NZ: Current Acc, Q1  
JP: Trade balance, May  
CH: Property prices, May  
UK: BoE minutes  
US: Fed policy meeting

19 June

NZ: GDP, Q1  
AU: Stock index options expiry  
UK: Retail Sales, May  
US: Conf board lead index, May  
US: Phil Fed mfg index, Jun

20 June

NZ: Consumer confidence, Jun  
NZ: Job ads, Jun  
EZ: Consumer confidence, Jun  
US: Triple witching

**GLOBAL GROWTH DOWN FOR 2014 BUT BETTER NEWS TO COME**

Contrary to some expectations the jobless rate held steady at 5.8 percent this week with 22,000 full-time jobs added between April and May. Whilst this was good news on face value, the participation rate fell to 64.6, a level not seen since 2006. The ABS monthly job survey indicated a rise in unemployment of 3,000. In the US, jobless claims went up slightly, but it was not enough to alter the view of a slowly strengthening economy. In Europe, Draghi's speech on the state of the European economy was applauded by stock markets as he indicated more reform could be used to help support the European economy. The World Bank adjusted its forecasts for world growth, downgrading it to 2.8% from 3.2% in January. It sighted the cold US winter and tensions in the Ukraine as factors in the lower estimate, but it also raised its forecast for 2015 and 2016 at 3.5% and 3.6% respectively. In China the easing of bank loans and an increase in government spending is seen to support the targeted 7.5% growth rate, signaling an increased attention by authorities to limit the downside risks to the economy. This may help to settle the price of iron ore in the coming weeks, which has seen it fall to around US\$94 per tonne. Consensus appears to be for a low of around US\$90 per tonne before a pick up towards the end of the year. This put our miners under a bit of pressure this week but that hasn't stopped continuing M&A activity. Gold and oil regained some positive momentum late in the week as the situation in Iraq rapidly worsened. This could lead to regional instability and prompted a 109 point fall in the Dow on Thursday night.

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You may qualify as an experienced investor under Section 708 of the Corporations Act. If so, you can get access to corporate product offerings.

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DJC Carmichael Pty Ltd often manage many corporate offerings during any one month. Don't miss out on taking advantage of these opportunities.

Speak to your advisor today.

Contents:  
Resources: Resource & Invest Ltd (RNI)  
Energy: Elk Petroleum Ltd (ELK)

Local Markets		Close		
Index	5/06/2014	12/06/2014	%Chg	
All Ords (XAO)	5,499	5,420	-145%	
ASX 20 (XTL)	3,486	3,428	-167%	
ASX 200 (XJI)	8,510	8,402	-128%	
ASX 200 (XJR)	4,182	4,082	-240%	

World Markets		Close		
Index	5/06/2014	12/06/2014	%Chg	
Dow Jones	16,699	16,836	0.82%	
S&P 500	1920.03	1940.46	106%	
FTSE100	6,871	6,813	-0.84%	
Nikkei 225	14,682	15,079	2.71%	
Hang Seng	23,010	23,110	0.43%	
Shanghai Comp	2041	2041	0.01%	

Commodities		Close		
Index	5/06/2014	12/06/2014	%Chg	
Gold US\$/oz	1256.3	1253	-0.26%	
Platinum \$/oz	1460	1448	-0.82%	
WTI Spot Oil	103.54	102.47	-103%	
Aluminium	1785	1829	2.47%	
Copper	6,970	6,800	-2.44%	
Lead	2,075	2,080	0.24%	
Nickel	18,750	19,005	136%	
Zinc	2,047	2,094	2.30%	
AUDUSD	0.93074	0.933995	0.35%	
Wheat	6.325	6.058	-4.23%	

## Resources Brief

### Resource & Investment Ltd (RNI) **Speculative Buy**

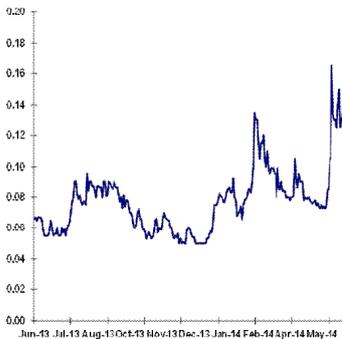
#### Soon to be gold producer with copper sizzle

RNI released two eye catching announcements in late May on their Cashmans' Project (RNI earning 70%) with high grade copper rock chips and their Forrest prospect at Grosvenor (RNI earning 80%), where the first diamond drill hole intersected 9m at 5.27% Cu, 2g/t Au and 8.4% Ag in a VMS system. The results come from the Bryah Basin, a region that boasts the DeGrussa, Horseshoe Lights and Thaduna copper projects. However, RNI are soon (1H 2015) to resume gold production from their 2 million ounce Grosvenor and Peak Hill Projects, which will underpin the share price. The copper exploration comes free.

#### Key Points

- **Gold operations form the backbone:** The Grosvenor and Peak Hill Projects offer a near-term pathway to production to RNI with a development timeline of approximately 8 months once a \$35m financing has been received. Permitting is largely in place and a competitive re-tender for the mining is due for completion by the end of June. RNI intend to run a heap leach operation for the low grade component in parallel. RNI are forecasting AISC of around A\$1,075 per oz on an initial 8-year mine plan with the ability to use a substantial A\$48m in tax losses to boost NPAT.
- **Funding required:** RNI negotiated an increase and extension to its existing financing facility with the Taurus No.2 Fund, expanding the initial amount from \$15m to \$19m. The facility was used to purchase the Peak Hill gold project from Montezuma Mining Company Ltd (MZM), which held 550,000 ounces of gold in resources. RNI are in discussions on the provision of the additional \$35M required to bring the Grosvenor / Peak Hill projects back into production. RNI's financial modelling shows an NPV of \$103m on reasonable assumptions which effectively under pins the share price.
- **VMS sizzle:** However, RNI control a significant proportion of the Bryah Basin, a region that hosts several large and high grade VMS deposits – DeGrussa, Horseshoe Lights - and Thaduna deposit close by in the Yerrida Basin. RNI hold a considerable strike length of prospective geology and have numerous VMS targets that have already started to yield very encouraging results. In late May RNI released results from the first diamond drill hole at the Forrest Prospect following up a previous RC intersection. The Forrest Prospect is currently open down dip and along strike but already has a vertical component of ~200m
- **Rock chips:** We don't often put a lot of credence on rock chip sampling but the result at the Cashmans project of 17% copper from the T10 gossan is certainly eye catching. The project hosts 45km of prospective VMS target horizon at the base of the Narracoota Volcanics. High grade surface copper grades up to 16% Cu have also been recorded at Forrest along an untested 12km VMS trend. We view the exploration potential as significant and small high grade VMS systems fit well within our investment criteria.
- **Cashed up:** RNI has just secured an additional \$5.25m in funding through an over-subscribed SPP. The funds will be deployed to fast-track exploration drilling at its priority targets at the Forrest copper-gold discovery and the Cashmans Project
- **Catalysts:** 1) Funding secured to re-start the Grosvenor / Peak Hill gold operation. 2) Exploration drilling results at its high priority targets 2H 2014. 3) Re-start of production in early 1H 2015.
- **Recommendation:** We place an initial Speculative Buy recommendation on RNI.

#### 12 Month Performance



## Energy Brief

### Elk Petroleum Ltd (ELK)

Buy

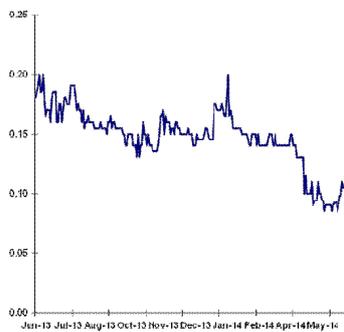
#### Divestment of Wyoming Assets

ELK has announced that it plans to divest all of its Wyoming Assets including its 35% interest in the Grieve EOR project and has appointed specialist oil and gas asset broker Meagher Energy Advisors (Meagher). We believe this is a positive development given the lack of value reflected in ELK's share price for the Grieve project and the timing to first production (2016) with a potential sale providing ELK with material cashflow which could re-rate its share price. We maintain our Buy recommendation but have downgraded our price target from \$0.45/sh to \$0.22/share.

#### Key Points:

- Divestment of Wyoming Assets.** ELK has announced that it plans to divest all of its Wyoming assets which include the Grieve EOR project, Ash Creek Chemical EOR project and the Grieve oil export line. In addition, over 2,900 acres of Niobrara rights will be divested. We believe this is a positive development given the lack of value reflected in ELK's share price for the Grieve project and the timing to first production (2016).
- Asset sale highlights challenges of maturing assets into production.** In our view, the planned asset sales highlight the challenges for small and mid-cap players to mature oil and gas assets into production and follows Karoon Gas Australia's (KAR's) recent divestment of its Browse assets to Origin Energy. We believe the recent delays to first production of the Grieve EOR project provided significant headwinds to ELK's share price and we believe that industry could attribute better value to Grieve.
- Asset divestments could re-rate ELK.** An attractive sale price of ELK's Wyoming assets has the potential to re-rate ELK while also reducing any additional near term funding commitments. With WTI oil trading above US\$100/bbl and over a year away from Grieve first oil, we believe this could be the right time to deliver an attractive outcome for shareholders. ELK could re-direct funds raised to its Singleton project in Nebraska, a share buyback or pay a dividend to shareholders.
- Estimated divestment value of Grieve more than underpins ELK's share price.** We believe the potential divestment value of Grieve could more than underpin ELK's current share price. Furthermore, the potential divestment of Ash Creek and the Grieve oil pipeline provides additional upside.
- Maintain Buy recommendation with reduced price target.** We maintain our Buy recommendation with a reduced price target of \$0.22/sh to reflect our estimated divestment value of ELK's main Wyoming assets (Grieve and Ash Creek) before they reach the production phase. In our view, oil and gas asset sales pre-production will usually trade at a discount to producing assets given the forward execution risks and the timeframe to first production which both contribute to a lower risk NPV outcome.

#### 12 Month Performance



Source: IRESS

**Disclosure****WBCAN0660**

This Research report, accurately expresses the personal view of the Author. All the information utilised in this report is accurate and current at the date stated on this report.

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The Author of this report made contact with **Elk Petroleum Ltd** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

**Recommendation Definitions**

SPECULATIVE BUY – 10% out-performance, but high risk  
BUY – 10% or more out-performance  
ACCUMULATE – 10% or more out-performance, buy on share price weakness  
HOLD – 10% underperformance to 10% over performance  
SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries Index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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**RESEARCH CONTACT DETAILS**

Paul Adams  
**Head of Research**  
+61 8 9263 5234  
[padams@djcarmichael.com.au](mailto:padams@djcarmichael.com.au)

Edwin Bulseco  
**Oil & Gas Analyst**  
+61 8 9263 5311  
[ebulseco@djcarmichael.com.au](mailto:ebulseco@djcarmichael.com.au)