

09:15 12 Aug 2014

Northland Capital Partners View on the City: Caledonia Mining, Nostra Terra Oil & Gas and Sunrise Resources

OIL & GAS: NOSTRA TERRA OIL & GAS (LON:NTOG)

Q214 UPDATE: PRODUCTION RISING FOLLOWING INTERRUPTIONS/MAJOR EXPANSION TARGETED

CHISHOLM TRAIL

- Two wells paid out in less than two years; CT-4 (5.3% Nostra) in 13 months and CT-3 (12.6% Nostra) is expected to pay back in c.18 months.
- CT-15 (11.6% Nostra) added IPR of 232 boepd, around 21 boepd net to Nostra Terra. Subsequent early production was erratic but has now greatly improved.
- CT -14 (20% Nostra) is now producing commercial quantities of oil and gas and the company is awaiting further fluid flow back to establish a stabilised production rate.
- Elected to participate in two additional CT wells including CT-16 where Nostra has a 20% working interest.
- First half production was negatively impacted by the drilling of CT-15 that affected the nearby CT-3 well, but the latter has now begun to recover.
- Total H114 production was 10.3k boepd generating net revenues of \$743k.

DEVELOPMENT/ACQUISITIONS/DISPOSALS

- A location has been established for the High Plains prospect in which Nostra has a 20% working interest - this could be drilled this year.
- Company appointed of Quixote Associates to work on larger acquisitions.
- Nostra intends to dispose of its non-core Bloom properties.
- We place forecasts under review but retain our 0.37p price target based on a risked-resources valuation method.

NORTHLAND UK VIEW: The update validates the entry into the Chisholm Trail (CT) assets with two wells looking like they will pay-out (recover total capex) in less than 1.5 years, against a target of <3 years. CT-14 is commercial but the stabilised rate remains a case of wait and see whilst an improvement in both CT-15 and CT-3 should benefit H2 as should the possible onset of CT-16. Even so, the temporary setback to production experienced in H114 and uncertain outlook for CT-14 and CT-15 will impact the full year and we expect to reduce our estimates for that period. Though we would expect production to pick up significantly in H2, our prior c.47k boepd FY estimate looks demanding. However, this temporary setback is partly timing and is unlikely to be highly material in the long term. The company remains well placed, underpinned by improving Ct cashflows, to participate in future wells and expand into new territories as per its clearly stated ambition. The desire to add significant acquisitions was emphasised by the appointment of Quixote Associates and portfolio rationalisation of non-core properties (i.e. Bloom) will also help.

MINING: Sunrise Resources (LON:SRES)

DIAMOND SAMPLING RESULTS: SOAPY BORE APPEARS TO HAVE LESS FAVORABLE SIZE DISTRIBUTION

CUE DIAMONS UPDATE

- Soapy Bore Kimberlite confirmed as diamondiferous.
- 227 diamonds recovered from 272kg of kimberlite processed (0.82 stones/kg).
- Significant diamond breakage occurred making it difficult to establish diamond size distribution, though this initially appears to be less favourable than Target 5.
- Results from other targets are expected shortly but the limited sample size means these may not be conclusive.

CORONA GOLD PROJECT

- The exploration licence for the Corona GOLD Project, located in Western Australia has now been granted.

NORTHLAND UK VIEW: Sunrise Resources has consistently demonstrated that the kimberlites it has discovered at the Cue Diamond Project are diamondiferous, the first step in the long process of kimberlite evaluation. Results to date appear to indicate that the size frequency distribution at Soapy Bore is not as favourable as at Target 5 but the significant amount of diamond breakage makes it difficult to confirm these early conclusions and further work is required.

MINING: Caledonia Mining CORPORATION (LON:CMCL)

H114 RESULTS: NET PROFITS DOWN 76%

- GOLD production down 3% to 21,464oz in H114 from 22,060oz in H113.
- All-in sustaining costs down 4% to \$903/oz Au in H114 from \$942/oz Au in H113.
- GOLD sales down 1% to 23,433oz in H114 from 23,552oz in H113.
- Average realised GOLD price down 17% to \$1,269/oz Au in H114 from \$1,488/oz Au in H113.
- Payment to the Zimbabwe Government and community decreased 86% to \$6.6m in H114 from \$12.3m in H113.
- Net profit attributable to shareholders down 76% to \$4.3m in H114 from \$7.6m in H113.
- Net cash remained level at \$9.9m.

NORTHLAND UK VIEW: After yesterday's announcement from Caledonia Mining Corporation that the Q114 results overstated the post-tax profit by \$1,054,000 due to the misallocation of non-cash foreign exchange gain, Caledonia shareholders will be further disappointed by these interim results. There is one positive in the form of a decrease in sustaining costs at the 49% owned Blanket Mine, located in Zimbabwe that are down 4% on the previous year due to a decrease in capital costs. However overall, with net profits down a chunky 76%, H114 was disappointing. The weakness in performance was largely a result of the lower GOLD price compared to last year. Earlier in the year the Company believed it could combat lower prices with higher production volumes but downgraded these expectations in July due to unavoidable dilution from low grade lenses within the ore zone. Shareholders can take some comfort that Caledonia Mining Corporation retains a significant net cash position of \$9.9m and the Company continues to be one of the highest yielding AIM listed miners. Management is planning to optimise Blanket's future profitability and cash generation to realise the mines growth potential. This process is expected to be completed in Q414.

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)1202 770386 action@proactiveinvestors.com

No investment advice

Proactive Investors is a publisher and is not registered with or authorised by the Financial Conduct Authority (FCA). You understand and agree that no content published constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value or suitability of any particular security, portfolio of securities, transaction, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including company related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior columns and opinions we have published. These references may be selective, may reference only a portion of an column or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.