

SOCIAL MEDIA TAKES ON THE MIDDLE EAST

BY **WILLIAM (BILL) KOENIG**, CFA, CMA, PORTFOLIO MANAGER & ANALYST

Did I ever mention this was going to be an interesting year?

With two major world events (Japan and Middle East) going on right now, the markets are scrambling to make sense of who wins and who loses. And commodity usage is currently under the most scrutiny. Now while what is going on in Japan is just plain tragic, the country has a history of being able to cope with these type of disasters (including two atom bombs) and has set about once more the process of bringing stability into those areas affected by the earthquake and the tsunami.

On the nuclear front (likely the topic of next months newsletter once we see how it all gets resolved), what was very impressive is how all of Japan's allies with nuclear capability have come forward and tried to aid Japan in whatever way they could. Obviously the end result is going to have some pretty good implications on the future use of nuclear energy as a source for power generation which will impact uranium pricing in the short term while the uncertainty abounds. For my part, because nuclear is such an efficient way to produce energy, I think it will once more survive this disaster. However, having said that I think we may see a lot of thought process about how wise it will be to add these facilities near the known zones of instability. I think the thought process for these type of areas will be making the new winner for power generation LNG's (liquid natural gas) as the abundance of this product has now come to the forefront.

Which brings us to the other world event currently occurring, namely the radical changes taking place in governments in the Middle East. Now coincidentally, the CFA Institute had organized a Middle East conference in Abu Dhabi that took place in the middle of March. I decided to attend this event back in January because at the time I wanted to get a feel for how the Middle East was preparing for the impact of all the new oil production that will come from the oil bearing tight shales and sands. Since then of course social upheaval has been the name of the game. And so attending the conference in the midst of all this was very timely as the attendees were mainly from Bahrain, UAE, Turkey, Kuwait and Pakistan. And some of the key presentations were the thoughts of the various high ranking officers of some of the largest sovereign wealth funds in the world. So loaded with these timely insights, I give you their impressions.

So what is driving all this change?

Well compliments of a very good presentation given by Mandagolathur Raghu, CFA who is the Senior Vice President of Research at the Kuwait Financial Centre, you get some insight as to what it is that they are looking at. And not surprisingly, it is all about the demographics.

SOCIAL MEDIA TAKES ON THE MIDDLE EAST (CONTINUED)

Country	Unemployment		Poverty		Inflation	Corruption	Failed State Index
	Population Under 25 yrs	Unemployment %	Poverty Rate	GDP/Capita (USD)		Out of 10	Out 120
Algeria	50%	10.0%	23.0%	4,762	5.5%	2.9	81.3
Egypt	36%	15.0%	N/A	2,998	2.6%	3.1	87.6
Jordan	58%	9.2%	20.0%	4,746	11.7%	4.7	77.0
Libya	63%	15.3%	25.0%	12,951	5.1%	2.2	69.1
Morocco	50%	14.6%	18.0%	2,987	9.5%	3.4	77.0
Syrian Arab Republic	59%	13.0%	14.2%	3,110	5.5%	2.5	87.9
Tunisia	42%	1.6%	N/A	4,274	4.1%	4.3	67.5
Republic of Yemen	53%	30.0%	30.0%	1,319	4.5%	2.2	100.0
Islamic Republic of Iran	50%	9.6%	15.0%	4,467	1.5%	2.2	92.2
Iraq	49%	15.0%	N/A	2,827	4.4%	1.5	107.3
Kuwait	33%	4.4%	N/A	34,743	1.0%	4.5	61.5
Saudi Arabia	51%	10.5%	N/A	17,840	9.8%	4.7	77.5
United Arab Emirates	59%	10.9%	11.9%	48,990	5.5%	6.3	52.4
Bahrain	44%	13.2%	3.8%	21,605	5.0%	4.9	58.8
Qatar	35%	2.4%	N/A	89,320	4.5%	7.7	51.8
Oman	67%	35.0%	45.2%	19,135	2.0%	5.3	48.7

...if Arab countries had a choice of being run by a democratically elected government or keeping with current structures as long as they had good governance practises, the best choice would be good governance.

One just has to look at the percentage of the population unemployed that is under 25 years of age. Remember this is the most media astute populace that has ever existed. They make use of social networks, are governed by their peers on most of their thoughts and are likely more highly educated than their parents. This is a group that has looked at what their parents have lived under, sees what the other options are and has said "time for change".

And so the process of going about change is taking the various forms, from outright civil unrest to peaceful negotiations to effect changes. And its quite likely social media sites like Twitter and Facebook are at the front of their communications. Imagine Abdul with 300 friends posting that he is going to join a peaceful protest at Akbar Square and inviting all his friends to come and join them. Each of his friends does the same thing and the next thing you know you have 500,000 attendees at a rally. This type of scenario is totally catching the various "governments" by surprise as to how quickly and suddenly these protests can be organized.

And so the governments are responding in various fashions to control the unrest. This has ranged from outright bribes to the

populace to bringing in high profile political names to endorse the current governments.

One of the most significant pronouncements during the week I was there came from former US Secretary of State Colin Powell, who happened to be in Abu Dhabi at the same time. His topic at the 16th annual conference organized by the Emirates Centre for Strategic Studies and Research indicated that if Arab countries had a choice of being run by a democratically elected government or keeping with current structures as long as they had good governance practises, the best choice would be good governance. The key would be how well the current country is positioned to transition itself to into democracy.

Obviously in an environment where opposition parties are not allowed, protests are banned and physical force is used should a counter view appear, these countries will need a little time to transition.

Apparently (or conveniently), Tunisia and Egypt were given as examples of countries that he thought were in good shape to change, while the GCC states were viewed as not quite being ready, so the residents of these countries should just settle

SOCIAL MEDIA TAKES ON THE MIDDLE EAST (CONTINUED)

on being better governed. Now while the sceptical side of me wondered what his fees were for appearing at the conference and giving such a view, the reality is, it is probably the correct view in the short term. As we have seen repeatedly, it is not easy to step into democracy. Opposition parties need to be formed, platforms must be established and reliable voting mechanisms need to be put in place. All of which takes lots of time and planning.

So how and in what form is this good governance going to take place? Well for each country it differs, but in all cases it amounts to sharing the wealth to a greater extent than has been previously seen.


So the question remains will this be enough?

Certainly in countries like Yemen, Syria and Libya we will likely see continued unrest. And this period of uncertainty will have an influence on oil prices and where governments choose to source their long term supply of oil.

What the recent endorsement of the Obama administration of

the Canadian Oil Sands has quietly alluded to is the fact that the US government has had to make a choice between continuing expenditures to keep the peace in volatile areas like the Middle East in order to count on continued secure oil supplies, or to rely more on countries with stable governments like Canada and Brazil who also have the ability to supply them with continued secure oil.

The reality is, if you add in all the costs that the USA spends to ensure security of supply in the Middle East the price of oil is much higher for deliveries from that part of the world versus deliveries from Canada. And so one would anticipate much more renewed interest in developing our oil production from the USA.

It is into this environment that we are currently launching the **PATHWAY DISCOVERY 2011 GORR LIMITED PARTNERSHIP**. This product is aimed at drilling infill wells on unconventional oil shales and tight sands – a key part of the continued growth in oil production for North America. We hope you participate in this flow-through eligible product. 

Subsidies for peace

New spending measures, selected countries, 2011

		Budget balance, % of GDP*	Import cover, months*†
Algeria	\$156bn on new infrastructure projects; tax cuts on sugar	-3.5	38.0
Bahrain	\$100m to families; proposal for \$2,500 for each family	-0.1	3.6
Jordan	Salary increase for civil servants and military personnel; tax cuts on fuel and food; more money to National Aid Fund for the poor	-8.4	9.2
Kuwait	\$4,000 for each citizen; free food for 14 months	+24.4	9.4
Libya	\$450 for each family; 150% wage increase for some public-sector workers; abolition of taxes and customs duties on food	+8.9	42.5
Morocco	"Compensation system" for wheat importers	-4.3	7.1
Oman	Minimum-wage increase from \$364 to \$520 a month; 50,000 new government jobs; monthly stipend of \$390 for job-seekers	+1.4	5.9
Saudi Arabia	15% pay increase for public-sector workers; unemployment benefits; affordable-housing subsidies	+6.4	34.2
Syria	Consumption-tax cut on coffee and sugar; reduced customs duties on food; more money to Social System Fund for poor; increased wages and heating allowances for civil service	-4.5	11.8
Tunisia	Increased welfare spending; some food-price subsidy rises	-5.0	5.3
Yemen	Increased welfare spending	-5.1	6.5

Sources: Peterson Institute for International Economics; Economist Intelligence Unit; *The Economist*; press reports

*2010 estimates †Foreign-exchange reserves expressed as number of months of imports

MINING PICK OF THE MONTH

COMPLIANCE ENERGY (CEC.V)

COPPER/GOLD PROVIDES MORE UPSIDE TO COMPLIANCE'S COAL FOUNDATION

BY BARBARA THOMAE, P.GEO., SENIOR MINING ANALYST

WE are featuring Vancouver-based **Compliance Energy** (CEC.V) as our mining pick this month because it appears to be undervalued in terms of its coal assets at a time of rising coal prices and is not receiving any market attention for its base metal projects yet. We believe that the key to unleashing the Company's value on the coal front is through demonstrating better project economics at its proposed underground Raven coal mine and gaining the support of stakeholders towards a mine permit. Compliance Energy's coal and base metal projects are all located on Vancouver Island, British Columbia.

Boding well for the future of Raven, coal prices have been moving higher since the flooding in Australia resulted in supply concerns worldwide. That, coupled with several countries changing their energy policies with respect to nuclear, contract prices for steelmaking coal are about to reach US\$330 per tonne compared to US\$225 in the previous quarter. And some of the coal heavyweight producers are eager to set met coal prices on a monthly rather than quarterly basis in an effort to cash in on rising prices.

The Raven underground coal project, is about half-way through the harmonized provincial/federal environmental review required to receive a mine permit. If all goes as planned, CEC and its Asian partners could be delivering coal to Asian markets by 2013. With nineteen native bands plus other stakeholders and two levels of government at the table the process will prove challenging, however, we are confident that this team's expertise will enable it to adequately address and mitigate any concerns towards a positive outcome for all.

For Compliance's team is no stranger to getting new mines into production.... headed by President and CEO, John Tapics, a mining engineer with thirty years experience in Alberta's mining and electrical industries that includes a stint as a director of the Coal Association of Alberta. Tapics' insight into the coal sector in western Canada increases the chances for successfully steering the company through the environmental review process for its



proposed operation at Raven. Further, Chairman and Director, Jim O'Rourke, is an engineer who was involved in starting up several B.C. mines including Gibraltar and Endako for Placer and the Huckleberry and Copper Mountain deposits.

Dan Berkshire, who has over thirty years of practical field experience including prospecting, is the vendor of all its properties and is now employed by Compliance to direct its exploration programs. With the help of geological consultants who act as qualified persons, the team plans to actively explore for porphyry style and related skarn and vein type copper and gold mineralization on its new properties putting our flow through funds to good use.

Development Strategy

Compliance's strategy for developing its coal resources in the Comox Basin are geared toward proving itself as a responsible operator of the proposed underground mine at Raven in order to earn its "social license". The Company then plans to apply for permits to further explore the Bear property where a historical resource of 8.5 million tonnes occurs near surface – one that wouldn't take that much to bring into compliance with NI43-101 according to Tapics during a telephone interview last week.

"Given the current stage of exploration, developing Bear

COMPLIANCE ENERGY – COPPER/GOLD PROVIDES MORE UPSIDE TO COMPLIANCE'S COAL FOUNDATION (CONTINUED)

would not make sense without the Raven infrastructure. Further exploration on Bear and the showings between Bear and Raven would be required before applying for permits to mine Bear.”

The proposed Raven coal mine and Bear coal deposit are located within a larger land package the Company holds in the Comox Basin encompassing roughly 75,000 acres and estimated in 1975 to contain roughly 890 million tonnes of coal. The Raven coal deposit near Fanny Bay is situated some 60 km southeast of the currently producing Quinsam coal mine and 2 to 20 km from previous producing mines around Cumberland and only 2 km from the main Island Highway and the E&N Railway.

The large extent of coal in the Comox Basin has provided fodder for opposition groups that paint a picture of the area as shaping up to be a “mini Appalachia”. John Tapics believes these groups don’t appreciate the time it takes to quantify resources, gain approval and then actually mine them.

Furthermore, he says that recent concerns voiced in light of the Japanese earthquake with respect to the risk of a coal stock pile washing into the ocean are nonsensical. While no one is arguing that a tsunami risk exists at Port Alberni, he says that a small pile of washed coal would be the least of the town’s concerns when houses and human lives are at stake.

Raven Coal

The Raven Coal project is owned 60% by CEC and 20% each by LG of Korea and Itochu of Japan. Together the three companies formed the Comox Joint Venture in 2009. The Raven coal resource is contained within two parallel easterly dipping coal seams which would be mined by underground methods. This means that the operation would be out of sight and have a relatively small footprint limited to the surface facilities. Major infrastructure to be constructed on site includes a coal processing plant, coal stockpiles and handling equipment, mine offices, equipment workshops, and a power substation. The proposed project would see the washed coal trucked a distance of 82 km, first south along the Island Highway and then west along Highway 4 to Port Alberni.

Pincock Allan and Holt’s positive preliminary assessment last October set the stage for an economic underground mine based on a resource of 72 million tonnes of thermal and lower grade metallurgical coal in measured and indicated categories. This did not include the 59 million tonnes coal in the inferred category. The mine life is 17 years including construction from 2012 to 2013. The project returns a non-levered, pretax discounted cash flow-internal rate of return of 20.7%.

The Company believes that the feasibility study now underway by PAH will demonstrate enhanced project economics.



Total capital costs are estimated at \$272.1 million and total operating costs \$75/tonne for this port scenario. A net present value of \$201.9 million (\$120 million for CEC’s account) was calculated at an 8% discount an average realized coal price of \$142 per tonne. The quantity of recoverable run-of-mine coal, including dilution, is estimated at 30.1 million tonnes. The saleable product in the base case is estimated at 11.6 million tonnes of semi-soft metallurgical coal and 1.6 million tonnes of thermal middlings coal.

The Company believes that the feasibility study now underway by PAH will demonstrate enhanced project economics. Changes in the port location, increasing the resources by infill drilling to bump up inferred resources to measured and indicated would allow those tonnes to be incorporated into the mine plan. Step-out drilling to increase the resource along strike, and water treatment studies could boost the economics as well.

“The trucking route to Port Alberni represents the preferred option of seven possible port locations to ship the coal through” says Tapics. “The nature of the harmonized review process means that Compliance needed to identify a specific option at this early stage in order to conduct a full assessment of that particular option – and if other options are to be considered, each will have to go through a full environmental assessment”.

Tapics believes that if the Port Alberni route does not get approved, there are several other alternatives that would make economic sense but they could delay the start of the development by up to six months. As it stands, the rail option, which makes the most sense for shipping the coal to Port Alberni, would require government support to upgrade the existing tracks.

Tapics says that the next step of the environmental assessment on the provincial side was taking the proposed project out for public review and comment in

COMPLIANCE ENERGY – COPPER/GOLD PROVIDES MORE UPSIDE TO COMPLIANCE'S COAL FOUNDATION (CONTINUED)

the next few weeks. He believes the surprise federal election could stall the process for a month.

Copper-molybdenum- gold porphyries

The Company's early stage exploration that included geologic mapping, soil and rock geochemistry, and airborne geophysical surveys totaling 927 line km, prompted it to exercise its option to acquire three properties late last year (Figure 2). The Camp Lake, Hisnit and Tower properties were optioned for \$200,000 cash and future royalty payments; while mineral tenures to the Port Alice and the Gold River properties were staked by Berkshire on behalf of the Company with no added costs.

Compliance has budgeted \$1.25 million for this year's exploration program which will include 3,500 metres of diamond drilling for its Camp Lake and NIC properties. Drilling is scheduled to begin this spring.

The **Camp Lake** property covers 34-sq. km located 25 km west of Campbell River. The claims encompass the flank of an intense magnetic high, measuring 10 km across, and coinciding with a Jurassic Island intrusive stock. The Company believes this makes it prospective for porphyry and skarn related copper–gold–magnetite mineralization.

Soil and rock samples collected last year including massive magnetite were mapped over two hectares on the property and contained up to 82.5% magnetite (63.5% iron). Chalcopyrite,

The 2010 exploration program confirmed a previously indicated copper/moly rich porphyry system in the NIC North area.

sphalerite, and pyrite occur within the magnetite with up to 1.49% copper, to 19.2 ppm silver in surface magnetite samples. Copper sulphides were found on surface 120 metres north of the magnetite outcrops.

The **NIC** property covers 150 sq. km, 10 km southwest of Port Alice. It is underlain by Karmutsen Formation mafic volcanics, interbedded volcanoclastic and sedimentary rocks of the Jurassic Bonanza Group. These have been intruded by younger granodiorites to quartz diorite in the north–central part of the property.

The 2010 exploration program confirmed a previously indicated copper/moly rich porphyry system in the NIC North area. Compliance geologists intend to follow up the highlights of a late 2010 field season discovery by Berkshire on the NIC South area where five select rock chip samples averaged 0.959 ppm gold, 2.214 ppm silver, and 2.22% copper. Airborne geophysics covering 470 line-km and ground-based exploration were used to target the planned drilling for this year.



COMPLIANCE ENERGY – COPPER/GOLD PROVIDES MORE UPSIDE TO COMPLIANCE'S COAL FOUNDATION (CONTINUED)


PROPERTY	APPROXIMATE LOCATION	SIZE (HECTARES)	EXPLORATION OBJECTIVES/TARGETS
Camp Lake	Campbell River	3,441	Magnetite skarn and porphyry copper deposits
Hisnit	Tahsis	1,294	Porphyry and skarn deposits containing copper, molybdenum, and gold
Tower	Sayward	2,107	Porphyry deposits containing copper, molybdenum, and gold
NIC	Port Alice	15,563	Porphyry deposits containing copper, molybdenum, and gold
CJD	Gold River	1,042	Porphyry deposits containing copper

Valuation

Compliance Energy has 63 million shares outstanding and nearly 76 million on a fully-diluted basis for a current market capitalization of some \$35 million at today's price of \$0.55. Nearly half the value can be attributed to its \$17.2 million worth of Copper Mountain's shares, its spinout in 2006, (2.2 million shares now trading at \$8 per share).

With \$20 million in working capital (including the Copper Mountain shares), and little value attributable to the company's recently acquired early stage exploration properties, the market is only attributing about \$3 million to its coal projects. This appears to be very undervalued when considering CEC's part of the NPV in the prefeasibility study was roughly \$120 million. This doesn't include the expansion potential, and the new feasibility study at Raven nor its new exposure to copper and gold.

MineralFields invested \$1.25 million in a private placement flow through at the 40-cent level this February. And Prophecy Resources, a Vancouver – based, opportunistic player with a strong foothold in development-stage Mongolian coal properties has recently acquired five million Compliance shares, obviously recognizing the potential value.

Incidentally, MineralFields were early supporters of both Copper Mountain (CUM.T) and Prophecy Resources (PCY.V) which have turned out to be big winners for its investors, a trend expected to continue with Compliance Energy. 



Dan Berkshire samples outcrops at NIC; Source: Company files

Pathway Mining & Energy Investment Standard is a publication of Pathway Asset Management™ and has been prepared solely for information purposes. *Pathway Mining & Energy Investment Standard* contains forward-looking statements that involve risk and uncertainties. These forward-looking statements relate to, among other things, strategy, indicators and expectations for the resource sector and resource companies and other expectations, intentions and plans contained in this newsletter that are not historical fact. When used in this newsletter, the words “expects”, “anticipates”, “intends”, “plans”, “may”, “believes”, “seeks”, “estimates”, “appears” and similar expressions generally identify forward-looking statements. These statements reflect the current expectations of Pathway Investment Counsel Inc., William Koenig, CFA and/or affiliates thereof (collectively, “Pathway”). They are subject to a number of risks and uncertainties, including, but not limited to, changes in the global economy, changes in general economic and business conditions, existing governmental regulations, supply, demand and other market factors. In light of the many risks and uncertainties surrounding the resource sector, the forward-looking statements contained in this newsletter may not be realized. Furthermore, these statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that are difficult to predict, or are beyond the control of Pathway. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Pathway disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. © 2011 Pathway Asset Management™. All rights reserved.

Pathway Asset Management™ is a leading Canadian investment company offering a comprehensive range of investment products and services, including mutual funds, tax-advantaged products and customized high net-worth programs.

1110 Finch Avenue West
Suite 210
Toronto, Ontario
M3J 2T2

T 1-800-339-9169
416-665-9339

F 416-665-9331

www.pathwayam.com



Pathway Asset Management is the only flow-through investment firm to have two full-time Senior Mining Analysts active in the mining community and analyzing hundreds of companies a year looking for the best opportunities. We also have an exclusive strategic partnership with the highly respected geological and engineering consulting firm of Watts, Griffis and McOuat.

We dig deeper



LIMITED AVAILABILITY

Pathway Mining 2011 Flow-Through LP Pathway Québec Mining 2011 Flow-Through LP

Offering maximum tax savings of up to **143%*** through a 100% tax deduction and additional 15% federal tax credit as well as provincial tax deductions and credits.

- **100% Mining Focused** – Leveraged to gold and other precious metals, base metals, rare earths, and uranium.
- **Reduced Investment Risk** – An investor's after-tax money at-risk ranges from \$4,330 to \$5,282 with Pathway Mining 2011 FTLP and \$3,098 to \$3,899 with Pathway Québec Mining 2011 FTLP**.
- **Tax-deferred Rollover** – At dissolution, units may be transferred into our corporate class mutual fund, Pathway Multi Series Fund without incurring taxable consequences.



Consult your investment advisor/broker or visit www.pathwayam.com for more information.

* Depending on province of residence and assuming 100% Canadian Exploration Expense is eligible for federal mining tax credit and maximum offering size is achieved. ** Range for Pathway Québec Mining 2011 FTLP is based on a Québec resident and assumes 25-100% invested in Québec.

Commissions, trailing commissions, management fees and interests and expenses all may be associated with investment funds. Investing in a limited partnership is subject to certain risks and are not guaranteed. Their value changes frequently and past performance may not be repeated. Please read the Prospectus and consult with your financial, tax and legal advisors before investing. This is not intended to constitute legal, tax, securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type.