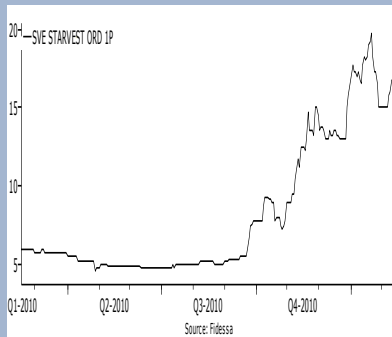


STARVEST PLC

www.starvest.co.uk



Price (bid-offer):	17.00p-18.50p	Listing:	AIM
Ticker:	SVE	Sector:	Financial Services
12-month trading range:	4.625p-19.75p		
Shares in issue:	36.717 million, Ordinary 1p		
Market capitalisation:	£6.52m		
Net Assets (at 30 September 2010):	£2.45m – see main text below		
Gearing (at 30 September 2010):	13.93% - see main text below		
Financial calendar:	Year End – 30 September; Last Interims – April; Last Finals – October; AGM – December.		
Major Shareholders:	Bruce Rowan (27.7%), Barclayshare Noms (14.9%), The Neubauer Family (7%), LR Noms (4.2%).		
Principal Business	A predominately natural resources-focused investment holding company.		

Date: 16 February 2011

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Disproportionate discount to NAV belies the quality of – and outlook for – the portfolio. A conservative valuation model further strengthens the investment case.

On 4 January 2011, the Company updated the market with a calculation of its latest Net Asset Value (“NAV”), which came to 25.89p per share, versus 11.28p at the September 2010 year end, and against a prevailing share price of 17p. Since then, the market in small company resource plays has seen some cooling and Starvest’s own stock has shed a couple of pence after a rise to just shy of 20p. A variety of factors are at work here and not least a breadth of natural profit-taking as, after all, many shares have done very well in a relatively short space of time. Couple this with a backdrop of civil unrest in North Africa and the Middle East, Eurozone debt worries, the spectre of interest rate rises to curb inflation and UK economic slowdown, a retracement is understandable. Conversely, the arguments in favour of commodities and natural resources investment remain strong, in our opinion, with precious metals likely to remain high through global monetary policy, ‘safe haven’ demand and the emergence of Exchange Traded Funds/Commodities. Base metals too, should continue to benefit from developing economy demand, with huge infrastructure development slated in China and elsewhere. However, it won’t all be one-way traffic and there are, of course conflicting opinions, but we remain long on natural resources for the foreseeable future, with our principal caveat being the prevailing oil price and its effect on budding mine economics.

With regard to the NAV discount, we believe recent levels don’t do the situation justice, principally because it belies the business and asset valuation models. For us, Starvest presents an attractive range of investments, many of which have justified management’s policy of patience and understanding when it comes to backing micro- and smallcap stocks. Rather than trading the portfolio, they appear to offer investees a ‘buy-and-commit’ approach. Indeed, the recent exit from TSX-listed Franconia Minerals shares came about because a proposed offer for the business allowed an opportune

and profitable market sale. This helped the Group overturn a £340,000-plus bank overdraft last September to a cash balance in excess of £600,000, of which about £75,000 has been used to top-up one holding. In fact, the Group has reversed a much larger overdraft/loan in the last 18-months as a result of some very lucrative disposals.

A large difference between NAV and share price has been synonymous with the stock for a while, but if you consider the valuation considerations taken by the Board, one could argue the discount is perhaps unfair. OK, we agree that 'united' investments such as that offered by Starvest merit some discounting, but the Directors have already factored-in aspects like liquidity and the size of holding when deciding where to flag prices. All shareholdings are valued at the market bid price or lower, depending on individual appraisal, in order to give a more realistic picture in the hypothetical event of enforced sale, and any investment profits are subject to a full Corporation Tax provision. There are differing opinions on what is considered a 'traditional' NAV discount for Investment Trusts, but anecdotal evidence points to anything over 15-20% meaning the stock is somehow out of favour. 30%-plus suggests an acute level of caution, but one would think that the gross profits being achieved on certain investments would have helped narrow the gap.

For this Report, we are going to concentrate on the main aspects of the Starvest portfolio and how we interpret future strategy. We could easily get bogged-down in the minutiae of each story, so we will concentrate instead on what we believe are the main drivers. As the Group reported, its principal holdings by value are in the following companies: Ariana Resources, Beowulf Mining, Greatland Gold, Kefi Minerals, Oracle Coalfields, Red Rock Resources, Regency Mines, Sheba Exploration and Sunrise Resources. However, because of the nature of the business and perhaps to preserve the right to alter holdings without drawing attention, the Company does not publish positions in its Report and Accounts, save for those where the interest exceeds 20%. Where a declared holding is otherwise public domain, we have used it.

PRINCIPAL INVESTMENT PORTFOLIO

Ariana Resources plc (AIM code: AAU)

The Company has recently announced the on-market acquisition of a further 2m shares, taking its position to just under 17.5m, or around 7.86%. We see good upside for this investment as Ariana's current 448,000oz gold and gold equivalent resource in Turkey has the potential for significant upgrades. In two Joint Ventures already (Proccea Construction and European Goldfields) and with a new investment to give exposure to the south of the country (Tigris Resources), there should be a decent source of news flow. With all that is going on and under the Company's belt, we are rather surprised at the comparatively modest performance of the shares in recent months, but we believe management's systematic approach, and how it will be conveyed by new PR firm St Brides, will eventually show through. The stake is currently worth just under £830,000 at the bid price.

Beowulf Mining plc (AIM code: BEM)

It says something for the return Starvest has achieved that its holding remains significant, even though it no longer has a notifiable interest in the shares. One of AIM's star performers in the last year, Beowulf could emerge as a serious player in the Swedish iron ore industry. Already having a JORC Inferred resource in excess of 140m tonnes at Ruotevare, its Kallak North and South deposits are believed to hold a further 600m tonnes, perhaps at around 30% iron. Ruotevare also has the potential for extension. It is no coincidence, then, that the March 2010 placing at 2.5p was a level left truly behind, with the stock reaching 56.5p in January this year and now at around 52p. Notwithstanding the fact that Starvest non-executive Director Tony Scutt occupies a common position at Beowulf, Starvest would have been mad not to have cashed-in along the way. As the holding is no longer notifiable, its value is not quantified.

Greatland Gold plc (AIM code: GGP)

Starvest holds an approximate 7.6% stake in Greatland, an Australia-based gold exploration company with a number of exciting licences principally in Western Australia and Tasmania. Methodology has been – and will continue to be – a controlled approach to testing each of the licences, as the aggregate area extends to over 1,700sq km thanks to the latest addition, the Bromus project. Boss Callum Baxter is not profligate with the money at his disposal, so it is expected that the £1.2m cash balance at the last account date will provide funding well into the current year and the outlook for news flow is favourable. Starvest Finance Director John Watkins also serves on the Board of Greatland and the Company's stake is worth over £580,000 at market bid.

KEFI Minerals plc (AIM code: KEFI)

The business owns several exploration licences across Turkey, a country that is highly prospective for gold and base metals, and has for some time now had an application for 21 new permits in the Saudi Arabian administrative system. Should the latter be granted, the shares are likely to react favourably to the news. KEFI stock fared particularly well in the latter half of 2010, despite partner Centerra pulling-out of the Artvin JV, but the shares have always been relatively popular with retail investors. Starvest owns approximately 5.2% of KEFI, at the moment worth over £1.1m to the portfolio, which may improve if it is able to move certain projects up the value chain.

Oracle Coalfields plc (Plus Markets code: ORCP)

Oracle holds an exploration licence (held through an 80% owned subsidiary) over 66.1sq km of Block VI of the Thar Coalfield in Pakistan, which has a JORC Measured Resource of 1.423 billion tonnes of lignite (aka 'brown coal'). Memoranda of Understanding have been signed with Karachi Electric Supply Co for a joint venture to construct a mine-mouth power station and with Lucky Cement for the supply of lignite coal. A bankable feasibility study should conclude this year, and management hopes a project green light will be forthcoming to help ease Pakistan's chronic energy production problems. Oracle intends to seek admission to AIM in the first half of 2011, which should improve liquidity in the stock. Like Beowulf, Starvest's position in the shares is not specified and Mr Scutt is also a board member.

Red Rock Resources plc (AIM code: RRR)

Red Rock has been another considerable success story and now has a market cap of around £77m, of which over 40% is covered by the value of its stake in Jupiter Mines (ASX code: JMS). Some clever deal-making by tireless Chairman Andrew Bell sees the company invested in a vehicle controlled by ex-BHP Billiton chief, Brian Gilbertson, and seemingly destined to become a major feed source for the worldwide steel industry. Within Jupiter sits the Mt Ida iron ore project for which a JORC resource is awaited and where Red Rock has maintained a 1.5% net smelter royalty that itself could provide significant future value. Add equity stakes in Resource Star (ASX code: RSL), Cue Resources (TMX code: CUE) and Ascot Mining (Plus Markets code: ASMP) and gold/copper projects in Kenya and gold in Colombia and the multi-faceted story makes for interesting reading. John Watkins serves as a director of both Red Rock Resources and Starvest. Again, the holding is not notifiable.

Regency Mines plc (AIM code: RGM)

Regency Mines is Red Rock's largest shareholder and also sports Andrew Bell at the helm. Other than considerable value provided by its 20% holding in Red Rock, it too has a large stake in Oracle Coalfields, which it recently acquired independent of Starvest's position. There are several potentially valuable gold/copper exploration licences held in Australia, but the main resource feature of the business is the Mambare lateritic nickel/cobalt project in Papua New Guinea, where Regency and equity partner Direct Nickel ("DNI") hope to develop a significant resource. Moreover, DNI owns rights to technology, developed alongside Teck Resources, which could revolutionise the currently expensive laterite processing industry. A combination of world-class project and efficient treatment would likely transform Regency's rating. As it stands, Starvest has an approximate 5.8% stake in Regency, which is valued at around £1.5m.

Sheba Exploration (Plus Markets code SHE)

Gold/copper explorer Sheba is in partnership with AIM listed Stratex International to develop resources at the Shehagne project in northern Ethiopia, where initial sample results have been promising. The company holds other prospective exploration permits, for which encouraging rock sampling results have just been released, but was unable to carry on much exploration activity beforehand, having limited financial resources. Now that the outlook is more favourable, the shares have improved, albeit to a market cap of around £3m and with the liquidity issues inherent to Plus Markets. Nevertheless, with just under 20% of the shares, Starvest's interest is worth over £550,000 and may benefit from renewed activity and external investment.

Sunrise Resources (AIM code: SRES)

Patrick Cheetham's Sunrise has repositioned itself as a broad-based explorer that is not deterred by geographic separation of assets! From diamond exploration licences in Finland and then Australia, it has added barite in Ireland and gold/base metals in Canada. The latter territory has yielded considerable promise, thanks to the drilling results from the Long Lake gold project in Ontario. However, the company seems unlikely to stop at looking for gold deposits, as the area has been prolific for platinum group metals, copper and nickel over the years. Another that found financing tough before, it was able to swell the coffers by over £1m last November. Starvest's approximate 4.6% stake is worth some £540,000 at bid.

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Other sizeable stakes

Alba Mineral Resources plc (AIM code: ALBA)

Although effectively a 'shell' company at the moment, it has some minor resources assets and Starvest's 12.6% holding is worth £250,000. Mike Nott, John Watkins' colleague on the Red Rock Resources board, is Chairman here.

Belmore Resources (Plus Markets code: BEL)

A zinc exploration business operating in Ireland. Starvest's 15.44% stake is worth (on paper) over £350,000.

Equity Resources plc (Plus Markets code: EQRP)

The Company owns 29.7% of EQRP, on paper worth just over £390,000, which itself owns investments in Red Rock Resources and Regency Mines and, thus, another levered interest. John Watkins is Chairman here.

Rare Earths and Metals plc (formerly Lisungwe. Plus Markets code: REMP)

Starvest owns shares worth over £130,000 (on paper) in this budding rare earths play, the business having relinquished its exploration interests in Malawi. John Watkins is again Chairman of this company.

Additional holdings

The Company holds valuable interests in **Gippsland** (ASX code: GIP), **International Mining & Infrastructure Corp** (formerly India Star Energy, AIM code: IMIC) and **Minera IRL Ltd** (AIM code MIRL). Elsewhere, there lower value are stakes held in a number of legacy investments, but we are not including these for the context of this report.

RECENT RESULTS, UPDATES AND FINANCING

For a comprehensive run-down of the portfolio, interested parties are advised to read the well-laid-out 2010 Report & Accounts, which is available on the Company's website, www.starvest.co.uk. Because of the unavoidable time-lag in reporting, the statement included an immediate retrospective for the date of publication and we have seen three updates since, the last being on 4 January 2011. Readers are advised that the Company uses two expressions for Net Assets: book value and trading value. The Report & Accounts naturally uses book value, which on this occasion is far more conservative than the trading value reported in *ad hoc* Net Asset Value releases. The trading value policy takes the lower of market bid price or Directors' valuation, which will take into account specific liquidity in the share being valued, relative to the size of Starvest's holding. For any Plus Markets shares, the mid-price less 20% is used. Trade value net assets were £4.19m at 30 September 2010, but this had risen to £10.44m by 4 January 2011. Accordingly, the respective NAVs per share stood at 11.28p and 25.89p versus prevailing mid share prices of 7.7p and 17p, i.e. discounts of 31.3% and 34.3%.

Although there was a declared loss for the year of £48,362, certain disposals amounting to over £640,000 (at a gross profit of £402,000) allowed the Group to repay a chunk of bank debt and cover its expenses. Post year-end sales totalling £1.129m (£904,000 gross profit) meant all outstanding bank borrowings of £341,509 as at 30 September 2010 were repaid, leaving a cash balance in excess of £600,000. The losses reported came from the book revaluation of investment assets, including some that fared less well than those mentioned above and it is fair to say Starvest has backed one or two unfortunate plays in its time. Again, investors should read the statement to accompany the Accounts, in which it is noted that out of a hypothetical 30-to-40 investments, around 5 are expected to mature into real 'winners' with around half of the remainder doing reasonably well. That builds-in plenty of scope for investment upsets, which is appropriate given the stage at which Starvest has provided most of its funding.

DIRECTORS

Bruce Rowan – Chairman and Chief Executive.

Mr Rowan has headed the Group since January 2002, at which time the business was known as Web Shareshop (Holdings), and was instrumental in its repositioning to underwrite investments in growth companies. In addition, he is chairman of similarly-structured investment vehicles Tiger Resource Finance plc (on AIM) and Sunvest Corporation Limited, which is listed on the ASX. He also serves as managing director of PLUS Markets constituent, Gledhow Investments plc. On a personal level, Mr Rowan is an active investor in small mineral exploration companies, resources 'start-ups' and 'turnaround' situations.

John Watkins – Finance Director and Company Secretary

John is a chartered accountant and spent 25 years in the City as a partner in both Neville Russell and then Ernst & Young, from which he retired in 1997. Mr Watkins remained involved in a number of business ventures since then and today serves as a

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non-executive director of investee companies Greatland Gold plc, Red Rock Resources plc and Regency Mines plc. As is noted above, he is also chairman of PLUS Markets investees, Rare Earths and Metals plc and Equity Resources plc.

Anthony Scutt – Non-Executive Director

Tony is an experienced private investor, investment analyst and a qualified Chartered Secretary and Certified Internal Auditor with the US Institute of Internal Auditors. He spent more than 30 years working for Shell International Petroleum in various territories, latterly as Chief Internal Auditor of Shell UK. Tony serves as a director of investee companies Beowulf Mining plc, Oracle Coalfields plc (as described above) and Agricola Resources plc.

SWOT Table

Strengths <ul style="list-style-type: none">• Level-headed management with an experienced and patient approach to smallcap resources investment.• Decent cash balance with which to make further investments.• Good spread of investments combined with read-across leverage in the portfolio.• Real value being built at core investees.	Weaknesses <ul style="list-style-type: none">• Forays into non-mineral resource investments have proved to be less fruitful.• Investee company stock liquidity can be sporadic.
Opportunities <ul style="list-style-type: none">• Further appreciation in the portfolio offering trading possibilities.• Resource sector M&A activity leading to bids for investees (e.g. Franconia)	Threats <ul style="list-style-type: none">• Downturn in equity markets, in particular sentiment for mineral resource stocks.• Surprise failure of one or more of the core investees.

SUMMARY

Staying committed to an investment once you have made it is a tougher discipline than most would imagine. The clamour at the resource stock exit door was most audible in 2008 and many companies found themselves bereft of investment at a time when they most needed it. Rather than stand fast, too many people cut and ran; a regrettable decision now, even if hindsight is a marvellous commodity itself. From the 2008 Report & Accounts, it was written: *"In spite of the recent gloom in world markets, it continues to be the belief of the Board that your Company is well placed to take advantage of the improvement in world commodity markets, which must follow a necessary period of turmoil as true asset values are re-established in the financial markets. Also, we continue to believe that millions of people in the fast developing countries of China, India, Pakistan and elsewhere will demand many of the everyday products which we in the West take for granted.....The manufacture of such products demands iron ore, nickel, manganese, tantalum and many other natural resources which these countries do not have in sufficient quantities if at all; Starvest is in business to support those exploring for such essential minerals....."* With these words still holding value, do you believe the Board was remarkably prescient or just had the experience to see the bigger picture? However, the problem for investing companies like Starvest is that you are only considered as good as the market that surrounds you, so the sell-off two years ago had a commensurate effect, regardless of management's outlook.

The 2010 Report and Accounts referred to above is, we believe, an open and honest appraisal of the Company's situation and details successes as well as failures. Because of the returns being sought (and, indeed, achieved) the Board can remain pragmatic if and when several investments of, say, £100,000-£200,000 each fall sharply in value or fail altogether. With the money now at their disposal, we can expect the Board to be on the hunt for new opportunities or to top-up stakes in existing investees where value is apparent (e.g. Ariana Resources). The market for commodities remains strong and we believe there is considerable scope amongst the current investees to provide the winners required to validate the approach of Messrs. Rowan, Watkins and Scutt.

Synopsis

Starvest's price recovery looks relatively modest and the shares represent a way to gain exposure to a variety of commodities, markets and technologies at an attractive discount.