

26 August 2017

On Friday's Close

Analyst : Warwick Grigor

The wheels are turning again as placement activity picks up

It was about six weeks ago that I suggested the market had bottomed but a few kind readers opined that I was a bit premature. Ever since then the Sentiment Oscillator has headed upwards. Yes, volumes have been thin, but many stocks have breached downtrends and have started patterns that could turn into uptrends. Many have improved by 10-20%, and more. We need time to confirm a new uptrend, but the Oscillator is very good in giving us changes in direction. I repeat what I said last week, "if you are not buying now, you will be playing catch-up".

Suddenly, starting late last week, the wheels are turning again. This week I have been offered at least two new placements each day. Maybe brokers have realised they haven't been making money lately, so they have pulled their fingers out. Maybe companies that couldn't raise money in the June quarter have decided to push the button now, encouraged by the improving prices. Whatever the reason, people seem to want to play again. There is clearly an appetite out there.

The Draig placement was heavily overbid. They wanted \$3m, but had bids for \$12m (so I was told). Be careful in ascribing too much to this sort of statement though. As soon as it looks like a placement will be filled, the free loaders jump on and give inflated bids hoping that they get some stock, even after scaling back. Don't forget that brokers are always prone to exaggerate. Nevertheless, it has been a good result for a company that I think will offer very good trading opportunities.

Stronger metal prices lead to positive reviews

If you have been reading research released by the large brokers you will find them full of positive opinions regarding the level of demand for metals and commodity prices. The weakness in the first six months of 2017 was anomalous. There is now some catching up to do.

The LME base metals index is at its highest level since Q4/14. Copper is back to its highest price since late 2014, and aluminium futures in China are at a six year high. Iron ore prices are holding recent highs. Gold continues to fluctuate near the peak of its trading range. There is nothing bearish to worry about.

WWI getting cash flow from gold

You may recall that West Wits (WWI) has a multi-million ounce gold resource in the Central Rand Goldfield in the Witwatersrand, in South Africa. It has an historical JORC resource of 12.8 Moz at 4.6 gpt to a depth of 3,100m. Normally this would have shareholders doing cartwheels, but enthusiasm needs to be moderated due to the depth and the issues with dewatering below the 400m level. So, the company chooses to focus on the near surface resource of 1.4 Moz, to that 400m depth. The resource statement is 12.7 Mt at 3.38 gpt.

WWI is aiming to produce 100,000 p.a. for 10 years. To this end it started with an open pit at Sol Plaatje, in August 2016. The scheduled rate was 130,000 tpa, with earnings to be shared with the contractor. First receipts were received in November 2016, but there were some issues with the grades and the contractor. A new contractor was appointed in June 2017, with a planned production rate of 15,000 tpa. Agreement was reached to treat the ore in Sibanye Gold's Ezulwini treatment plant, 40 km trucking distance away.

Last week WWI announced that its 60% share of the cash flow is expected to be \$155-\$175,000 per month, on treatment tonnages of 10-15,000 tonnes per month, from September, for an initial period of 15-18 months. While this production and projected cash flow will be most useful for a company capitalised in the market at only \$8.2m, it is nonetheless modest. However, the corporate strategy needs to be placed in perspective. This is just the first step in commercialising the > 1 Moz near surface resource. WWI is going through the process to secure permitting for the larger resource. It can then expand beyond the current mine plan to include development of the underground ore as well. This is where the 100,000 oz p.a. target comes into play.

Once the permits are in place WWI will have a significant gold production asset that will be readily saleable to a number of companies operating treatment plants in the area. Earlier modelling suggest that the NPV of these gold assets could be in the order of \$250-\$300m. WWI's share of this, after Black Empowerment takes its cut, would be 70% or \$185-\$222m. The smart strategy being considered by WWI would be to sell this for some sort of a discount to a nearby operator.

The net figure to WWI could be in the order of \$50-100m i.e. at least five times the current market capitalisation. A sale of this magnitude would enable the company to make a sizeable capital return to shareholders. Thus, we are looking at a gold asset play here, where shareholders could make a multiple of the current share price. It has taken a while to get to the current point, and it will be at least another year before it will have all of the licences in order, so shareholders need to continue to be patient.

Likewise, patience has been required for WWI's very exciting Derewo gold project in Papua. This looks as exciting as Porgera did in the early days, or Mt Kare. The issue is getting full access to commence production from the alluvial areas. Once this is achieved, exploration for the hard rock can commence. Downside from this point is minimal, while there is upside potential measured in multiples.

Marmota - in a hot spot of gold exploration in S.A.

During the week I sat through a presentation with Marmota Ltd (MEU), a company that started out as a uranium explorer in South Australia, that had to do a quick shimmy when the Fukushima nuclear accident pulled the rug out from under the feet of the uranium explorers. It is now an active and successful gold explorer in the vicinity of the Challenger gold mine.

The Challenger gold orebodies, 740 km NW of Adelaide, were first discovered by Dominion Mining and Resolute in 1995. The discovery was notable at the time due to the use of calcrete sampling on the surface, to identify underlying orebodies. Kevin Wills, the current exploration director for Marmota, pioneered this exploration methodology when he took it from the CSIRO research team and applied it in the field. Mining commenced with an open pit in 2002, and moved to the underground phase in 2005. By June 2007, there were one million ounces of gold in resources, and 512,000 oz in reserves. In 2005/06, the mine produced 108,080 oz. The high grade of 9.52 gpt enabled a cash cost of only \$280/oz. By 2013/14, the grade had dropped to 4.8 gpt, gold production was 74,954 oz and the cash costs had increased to US\$1,504/oz. Hence the decision by Kingsgate, then the owner, to close the mine.

WPG Resources (WPG) purchased the mine from Kingsgate in March 2016, at a nominal cost of \$1m. By that time the 650,000 tpa facility had produced 1.1 mill. oz of gold, but there was still 140,000 oz of remaining gold resources. The plant began operating again in May 2016, treating low grade stockpiles, and underground mining recommenced. The production target was 50,000 oz p.a. from a 360,000 tpa mining operation, with another 20,000 oz p.a. to come from ore trucked in from the Tarcoola deposit that comprised 710,000 tonnes at 3.1 gpt, for 71,000 oz in the reserve category. More recently the production target has been lifted to 80-90,000 oz p.a. Cash costs have been in the range of A\$1,475/oz to A\$1,600/oz, and they are expected to fall.

MEU commenced gold exploration in earnest about 18 months ago and immediately started to achieve success at the Goshawk prospect, about 50 km NE of the Challenger gold mine. Earlier calcrete sampling had identified subtle anomalies above sediments that are up to 15m deep.

Three rounds of aircore and RC drilling have outlined the Goshawk prospect over about 500m in strike length, on 20m spacings. Some very good drill results have been released, including composite samples of 4m at 40 gpt from 32m, 4m at 10 gpt from 32m and another 4m at 10 gpt from 32m. When these are split into 1m intervals, they all seem to have at least the minimum cut-off grade of 0.5 gpt, meaning they are good mining widths and not overly influenced by spotty gold.

Aurora Tank has an interesting supergene zone that is in the process of being defined. From surface, there is a layer of sediments that could be up to 15m thick, and beneath that there is a mineralised zone that seems to range from 1 to 15m in width, but maybe averaging half of this. This supergene zone extends down to the depth of weathering at around 40m average, vertical. Thus, the supergene zone of interest could be in the order of 30m from top to bottom.

My back of the envelope numbers suggest there could be 4-8,000 tonnes per vertical metre (tpvm), which works out

as 120-240,000 tonnes of potential ore. Depending upon the grade, there could be 20-50,000 oz in the structure. Maybe it could be larger, but it depends on the grade, whether it is cut, and a few other parameters of which I don't yet have the benefit. While that doesn't sound much, it is a useful start. The mineralisation is open at depth but there hasn't been enough drilling below 50m to extend the guesstimate any deeper. We have already seen how subtle gold on surface can lead to deep underground orebodies such as Challenger, which extend to hundreds of metres below the surface.

The proximity of any resource to the hungry Challenger mill could be very significant and enable a quick conversion of gold in the ground to cash in the bank, depending upon economics and toll treatment charges or sale terms. If a cash margin of \$500/oz was received, it would mean \$10-15m or more in quick order for Marmota.

A shallow open pit mine is unlikely to be an expensive affair. The top 15m would probably be ripple or free dig, with light blasting required once the saprolite zone with the gold ore is being mined. The waste to ore ratio will need to be calculated, but at this point it is probably going to be modest.

Getting back to the exploration story, there are two main explorers in the NW Gawler Craton apart from WPG; Marmota and Tyranna. Both have large ground positions and both have been achieving good exploration success. Marmota has 100% of its licences, whereas Tyranna hold some in a 72:28 joint venture with WPG with a 219,000 oz resource announced. Ground positions are large and in theory, any orebodies found could be processed through the Challenger mill rather than building stand-alone treatment facilities. Thus it is a good area for juniors to be exploring.

The calcrete sampling technique has been proven to be effective, though the ppb grades of gold can be tiny and easily overlooked by the untrained eye. Actual grades on surface are dependent upon the level of sedimentary cover that overlies mineralisation, with grades lower when the cover is thicker.

Marmota is a tightly run company. The chairman, Dr Colin Rose, runs it on the smell of an oily rag. He wants to make money out of share price appreciation, not by charging director and management fees. Thus he is well-aligned with the interests of shareholders. The market capitalisation is \$8-9m. Cash is running low at around \$0.5m now, suggesting that a small placement might be in the offing soon (a 10% placement at current prices would raise about \$750,000). If the opportunity comes up, it would definitely be worth a punt as further drilling could quickly build a solid resource base.

Stop Press: After writing this column the company announced a Trading Halt for a capital raising. We understand that it will place 45 mill. shares at 1.7c to s.708 investors, for a total raising of \$765,000. Half of this is expected to be placed with existing shareholders. If you would like to participate please email or call Warwick or Robert at Far East Capital, by close of business on Monday.

Is the electric car just a fashion, or an economic reality? Who has done the numbers?

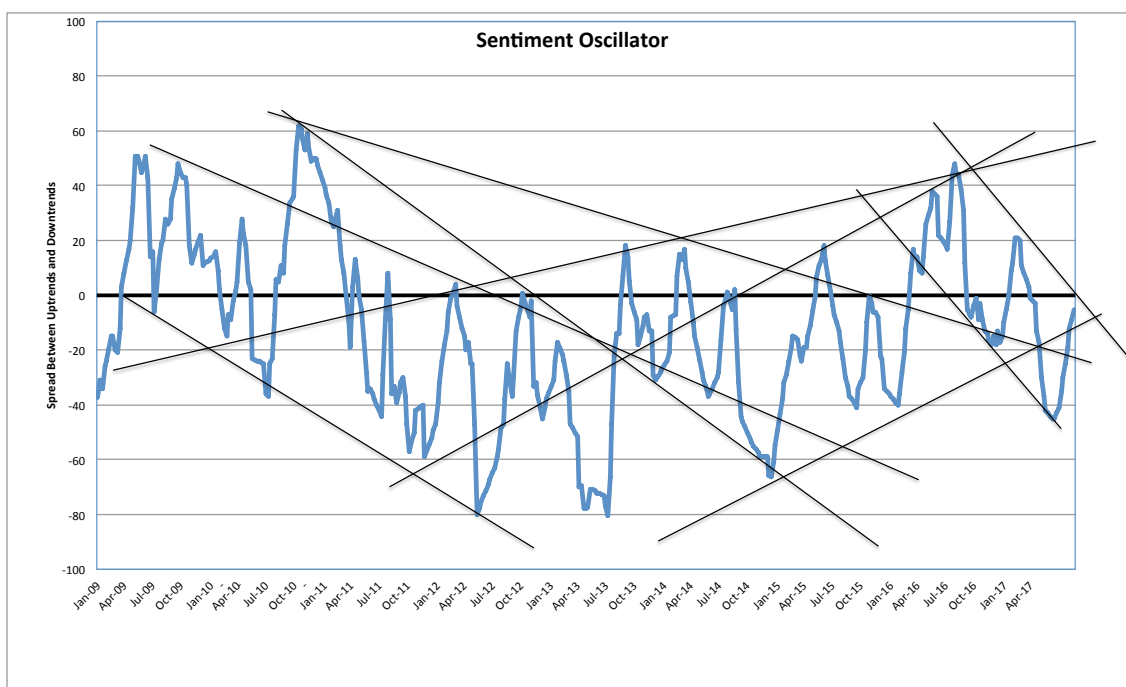
During the week I was sent an email questioning the economics of electric cars. On a superficial view, promoters of electric cars like to say that electric motors give 95-98% efficiency and petrol engines have efficiency levels of 35-40%. These are isolated statistics. I did a quick search on the internet to see what other relevant figures are circulating, but it quickly became obvious that there are many posts pushing electric cars that use conveniently supportive statistics. The whole topic is highly politicised and there is a real risk of forming views on inaccurate or biased figures.

It is not just the engine efficiency that you need to understand. You have to consider the electricity grid. A Tesla home charging system needs a 75 amp system. The average house (in the USA) is equipped with a 100 amp system. The author said that in his street of 25 houses, the system would only be able to support three houses with a

single Tesla each. That is an infrastructure limitation. What would it cost to upgrade the infrastructure?

The same author calculated that the General Motors electric hybrid car, the Volt, costs 74¢ a mile to operate. A similar size car that works on petrol alone costs 10¢ a mile. The Volt costs \$46,000 to buy, and the petrol car costs \$20,000. You don't have to be an economist to figure out which is better value.

Australians also have to consider the cost, and the volatility (upwards) of the electricity price. As the oil price remains at low levels, and the electricity price keeps rising, the pendulum swings very much in favour of petrol and diesel cars. Nevertheless, there is enormous pressure from greenies and governments to abandon internal combustion engines. We should be guided more by economics than by social green bullying.



Sentiment Indicator: The recovery in sentiment continued during the week but look at the Oscillator chart. The recovery is about to meet some resistance. There may need to be a correction before much longer. There were 32% (29%) of the charts in uptrend and 37% (38%) in downtrend.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant.

| Indices | Code | Trend Comment |
|-------------------|------|----------------|
| All Ordinaries | XAO | still sideways |
| Metals and Mining | XMM | still rising |
| Energy | XEJ | sideways |

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| Stocks | Code | Trend Comment (updated comments in bold) | Main Interest |
|-----------------------|------|--|------------------------|
| ABM Resources | ABU | stronger | gold |
| Aeon Metals | AML | testing uptrend | copper + cobalt |
| Alacer Gold | AQG | falling from rally | gold – production |
| Alkane Resources | ALK | spiked higher | gold, zirconia |
| Acacia Resources | AJC | Sideways at the bottom | coal |
| Agua Resources | AGR | weaker | phosphate |
| Alicanto Minerals | AQI | new low on rights issue shortfall | gold exploration |
| Allegiance Coal | AHQ | rising | coal |
| Alliance Resources | AGS | sideways | gold exploration |
| Alltech Chemicals | ATC | pullback after breakout | industrial minerals |
| Anova Metals | AWV | strong rebound, then fell again | gold |
| Antipa Minerals | AZY | rallying | gold |
| Apollo Consolidated | AOP | strong rise | gold exploration |
| Archer Exploration | AXE | pullback | magnesite, graphite |
| Argent Minerals | ARD | gentle uptrend | polymetallic |
| Aspire Mining | AKM | testing downtrend | coal |
| Atrum Coal | ATU | surged higher | coal |
| Aurelia Metals | AMI | at apex of wedge | gold + base metals |
| Auroch Minerals | AOU | down | exploration |
| Aus Tin | ANW | testing downtrend | tin, cobalt |
| Australian Bauxite | ABX | stronger | bauxite |
| Australian Potash | APC | slump back into downtrend | potash |
| Australian Mines | AUZ | gentle uptrend commenced | cobalt/nickel |
| Australian Vanadium | AVL | down | vanadium |
| Avanco Resources | AVB | nudging resistance line | copper |
| AWE | AWE | breached downtrend | oil and gas |
| Azure Minerals | AZS | strong rise | silver |
| BHP | BHP | uptrend | diversified |
| Base Resources | BSE | breaching uptrend | mineral sands |
| Bathurst Resources | BRL | continuing higher | coal |
| Battery Minerals | BAT | reached resistance line | graphite |
| BBX Minerals | BBX | uptrend, but correcting now | gold |
| Beach Energy | BPT | breached steepest downtrend | oil and gas |
| Beadell Resources | BDR | testing downtrend | gold |
| Berkeley Resources | BKY | testing downtrend | uranium |
| Berkut Minerals | BMT | steeply higher | cobalt |
| Blackham Resources | BLK | slump to new low | gold |
| Broken Hill Prospect. | BPL | down again | minerals sands, cobalt |
| Buru Energy | BRU | sideways at lows | oil |
| Canyon Resources | CAY | new low | bauxite |
| Cardinal Resources | CDV | rising again | gold exploration |
| Carnegie Clean Energy | CCE | down | wave energy |
| Cassini Resources | CZI | testing downtrend | nickel/Cu expl. |
| Chalice Gold | CHN | holding uptrend | gold |
| Cobalt One | CO1 | rally on change of name (from Equator) | cobalt |
| Cobalt Blue | COB | new uptrend | cobalt |
| Comet Resources | CRL | new high | graphite/graphene |
| Consolidated Zinc | CZL | downtrend | zinc |
| Corizon Mining | CZN | steeply higher | cobalt |
| Crusader Resources | CAS | breached downtrend | gold/iron ore |
| Dacian Gold | DCN | breached downtrend | gold exploration |
| Danakali | DNK | still in uptrend | potash |
| Doray Minerals | DRM | back in downtrend | gold |

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| | | | | |
|----------------------------|---------|--|--------------------------------------|------------------------------|
| Draig Resources | DRG | | rising | gold |
| Duketon Mining | DKM | | new low | nickel |
| Eden Innovations | EDE | | breached short term downtrend | carbon nanotubes in concrete |
| Emerald Resource | EMR | | sideways | gold |
| Energia Minerals | EMX | | new uptrend started | zinc |
| Evolution Mining | EVN | | ST down, within LT uptrend | gold |
| Excelsior Gold | EXG | | back to recent high | gold |
| Finders Resources | FND | | LT uptrend | copper |
| First Australian | FAR | | testing uptrend | oil/gas |
| First Graphite | FGR | | testing secondary downtrend | graphite |
| Fortescue Metals | FMG | | short term uptrend | iron ore |
| Galaxy Resources | GXY | | testing downtrend | lithium |
| Galilee Energy | GLL | | down | oil and gas, CBM |
| Gascoyne Resources | GCY | | breached uptrend | gold |
| Global Geoscience | GSC | | back to highs | lithium |
| Gold Road | GOR | | uptrend continuing | gold exploration |
| Graphex Mining | GPX | | new low then strong recovery | graphite |
| Heron Resources | HRR | | drifting lower | zinc |
| Highfield Resources | HFR | | continuing down | potash |
| Highlands Pacific | HIG | | down | copper, nickel |
| Hillgrove Resources | HGO | | back to highs | copper |
| Iluka Resources | ILU | | surged higher | mineral sands |
| Image Resources | IMA | | testing uptrend | mineral sands |
| Independence | IGO | | sideways | gold, nickel |
| Intrepid Mines | IAU | | sideways | copper |
| Karoo Gas | KAR | | breached support line | gas |
| Kibaran Resources | KNL | | testing downtrend | graphite |
| Kin Mining | KIN | | surge on gold discovery announcement | gold |
| Legend Mining | LEG | | sideways | exploration |
| Lithium Australia | LIT | | pullback after breakout | lithium |
| Lucapa Diamond | LOM | | down | diamonds |
| Macphersons Res. | MRP | | downtrend | silver |
| MetalsX | MLX | | LT uptrend in play | tin, nickel |
| Metro Mining | MMI | | sideways to higher | bauxite |
| Mincor Resources | MCR | | new uptrend | nickel |
| Mineral Deposits | MDL | | on support line | mineral sands |
| Mustang Resources | MUS | | breached downtrend | diamonds, rubies |
| Myanmar Minerals (Top End) | MYL TND | | rising on re-listing | zinc |
| MZI Resources | MZI | | down | mineral sands |
| Northern Minerals | NTU | | testing downtrend | REE |
| Northern Star Res. | NST | | rallying | gold |
| NTM Gold | NTM | | breached uptrend | gold |
| Oceana Gold | OGC | | down after steep fall | gold |
| Oklo Resources | OKU | | heavy correction | gold expl. |
| Orecorp | ORR | | down | gold development |
| Orinoco Gold | OGX | | breached downtrend, then pullback | gold development |
| Orocobre | ORE | | under longer term downtrend | lithium |
| Oz Minerals | OZL | | breached downtrend | copper |
| Pacific American Coal | PAK | | down | coal, graphene |
| Pantoro | PNR | | new high | gold |
| Panoramic Res | PAN | | surge through downtrend | nickel |
| Peel Mining | PEX | | surge through downtrend | copper |
| Peninsula Energy | PEN | | PEN | uranium |
| Perseus Mining | PRU | | new low | gold |

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| | | | | |
|------------------------|-----|-----|------------------------------|------------------------------|
| Pilbara Minerals | PLS | | hugging downtrend line | lithium/tantalum |
| PNX Metals | PNX | | down | gold, silver, zinc |
| Red River Resources | RVR | | holding longer term uptrend | zinc |
| Regis Resources | RRL | | confirming uptrend | gold |
| Resolute Mining | RSG | | still going lower | gold |
| RIO | RIO | | recovery | diversified |
| RTG Mining | RTG | | breached downtrend | copper/gold |
| Salt Lake Potash | SO4 | | down | potash |
| Saracen Minerals | SAR | | holding long term uptrend | gold |
| St Barbara | SBM | | rallying | gold |
| Sandfire Resources | SFR | | breaching downtrend | copper |
| Santana Minerals | SMI | | breached downtrend | silver |
| Santos | STO | | under long term support line | oil/gas |
| Sheffield Resources | SFX | | still in downtrend | mineral sands |
| Silver Lake Resources | SLR | | heavy fall | gold |
| Silver Mines | SVL | | down again | silver |
| Sino Gas & Energy | SEH | | down | gas |
| Southern Gold | SAU | | resuming uptrend | gold |
| Stanmore Coal | SMR | | breaching long term support | coal |
| Sundance Energy | SEA | | down | oil/gas |
| Syrah Resources | SYR | | strong rise | graphite |
| Talga Resources | TLG | | spike then pullback | graphene |
| Tanami Gold | TAM | | short term down | gold |
| Tempo Australia | TPP | | breached downtrend | mining services |
| Teranga Gold | TGZ | | at lows | gold |
| Tiger Realm | TIG | | breached downtrend | coal |
| TNG Resources | TNG | | testing short term downtrend | titanium, vanadium |
| Torian Resources | TNR | | new low | gold expl'n |
| Toro Energy | TOE | | breached first downtrend | uranium |
| Troy Resources | TRY | | new uptrend | gold |
| Tyranna Resources | TYX | | testing downtrend | gold exploration |
| Vango Mining | VAN | | uptrend breached | gold |
| Vimy Resources | VMY | | testing downtrend | uranium |
| West African Resources | WAF | | strong rise | gold |
| Westwits | WWI | | rallying | gold exploration/development |
| Western Areas | WSA | | new uptrend | nickel |
| White Rock Minerals | WRM | | down | silver |
| Whitehaven Coal | WHC | | gently higher | coal |
| WPG Resources | WPG | | still down | gold |
| Wolf Minerals | WLF | | down | tungsten |
| Totals | 32% | 46 | Uptrend | |
| | 37% | 54 | Downtrend | |
| | | 146 | Total | |

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.

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- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

| Weightings of Sectors Represented in the Company Charts | | | |
|---|------------------|-----------|--|
| Sector | No. of Companies | Weighting | |
| Gold | 34 | 23.3% | |
| Copper | 11 | 7.5% | |
| Gold Exploration | 14 | 9.6% | |
| Coal | 10 | 6.8% | |
| Oil/Gas | 9 | 6.2% | |
| Potash/Phosphate | 5 | 3.4% | |
| Mineral Sands | 7 | 4.8% | |
| Graphite | 7 | 4.8% | |
| Silver | 6 | 4.1% | |
| Zinc | 7 | 4.8% | |
| Lithium | 5 | 3.4% | |
| Nickel | 5 | 3.4% | |
| Uranium | 4 | 2.7% | |
| Cobalt | 4 | 2.7% | |
| Tin | 2 | 1.4% | |
| Bauxite | 3 | 2.1% | |
| Diamonds | 2 | 1.4% | |
| Iron Ore | 1 | 0.7% | |
| Other | 10 | | |
| Total | 146 | | |

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