

13 January 2018

On Friday's Close

Analyst : Warwick Grigor

## A major buy signal on the Metals and Mining Index chart

### *As the New Year opens ...*

When markets are thin in early January, due to everyone being on holidays, we often see stronger performance in the markets. As people come back to work there is often some selling into the strength, and a small correction results. This seems to have happened last week with the normal action and reaction of market movements.

### *... we reflect on 2017*

Those of us who watch the mining market closely, every day, will marvel at how strong that market has been over the last six months. Our expectations as to where it can go from here are firmly anchored in the lows seen in mid 2017. Whenever we look to the future, it is obvious that the most recent past has the strongest influence on our views.

### *... and the role of the swinging investors*

But what we have to remember is that mining is a small component of the entire market. As with politics, it is the swinging investor who holds the greatest power over the sentiments and its extremes. When they decide to exit, to focus on other sectors e.g. property, their departure can drive prices down to levels where fundamentals don't make sense. Bargains can be found everywhere and there is never enough money to go around if you are a bottom fisher.

Today we are seeing the other side of the coin. We are seeing a market in which a much wider range of investors are seeking to participate in the mining sector, and there is not enough stock to go around. For them, it is not a matter of trying to pick the bottom and getting set there. It is a matter of seeing which way the money is flowing, and casting out from the safety of the shore to catch the strongest current.

### *Significant breakout on Metals and Mining Index*

The most telling of our charts is the big picture on the Metals and Mining Index. It has broken through a long term resistance line that augers very well for the future. It first broke though this in early December, then it experienced a regulation pullback. The move since then, the very strong move since Xmas, confirms the breakout. We are now in a new world of expectations where the market will be performing "above the line".

It is important to recognise that we are not talking about value or fundamentals. While these are important over time, they play a secondary role in determining daily stock prices. Fundamentals influence the sustainability of movements, but they don't initiate them. Sentiment is the emotional ingredient that moves markets and that takes it to its extremes.

### *What individual charts are saying right now*

On one reading of the charts, that shows many steep rises, a rational man would say that there has to be corrections. On the balance of probabilities, that would be sensible. It makes sense to cash-in some profits. However, what about the situations where new players see how strong prices have risen, and simplistically want to be part of the game? What about situations where there has been sensible profit taking, but the natural sellers are now scared to sell any more in case they miss out on the euphoric phase of the market? We are seeing this exact scenario in the lithium market now. People are scared to sell and every day there are new players who want a seat at the table in the battery market. Why? Because it seems a good thing to do.

### *Beware of fund managers sharing their secrets*

At this quiet time of the year the newspapers are looking for stories. One of the perennial favourite themes is to ask fund managers what they think the New Year will bring, and what their favourite stocks are. I chuckle as I read these, wondering what unsuspecting mugs will go out and buy these stocks. One thing that you can be sure of is that the fund managers will be set in the stocks they mention. Now they want to generate interest to support their holding. Why else would they give away their secrets?

### *Lucapa pulls in a discovery out of left field*

While everyone has been focusing on Lucapa's Angolan diamond project and the quest for the primary source of the spectacular high value diamonds coming from the alluvial mine, the Company has come up with surprisingly good results from an exploration program on our doorstep, in the Kimberley region of WA. Last week it reported the drill results at the 80%-owned Brooking project.

Drilling has recovered 119 diamonds in lamproitic material, including seven macro-diamonds up to 1mm, from 86.8 kg of core samples from one HQ (63mm) size hole at Little Spring Creek. The prospect is located within 50km of the Ellendale 4 and 9 pipes, which supplied up to 50% of the world's fancy yellow diamonds when they were in production. As always, there has to be follow-up work, but these results are very encouraging.

The Lucapa share price has been very disappointing throughout 2017, notwithstanding the excellent diamond production. Speculators who were hanging out for a quick fix on the primary sources of the alluvial diamonds seem to have sold their shares and moved on. Other investors have shied away from taking a position due to the geopolitical risks that come with Angola. However, it is time to take a considered look at what Lucapa really represents - an emerging, high class diversified diamond producer.

Lucapa has balanced out the Angolan risk with the acquisition of a 70% interest in the Mothea diamond development project in Lesotho. This will provide an

alternative income stream with the greater certainty that comes from hard rock diamond mines, as opposed to alluvials. The company will continue to mine the high grade alluvials in Angola, and it will eventually discover the source of the diamonds. That could still be very exciting. Now, it is on the path of another diamond discovery in WA, that could eventually lead to the development of a third source of diamond production and earnings. As analysts like to say, there is a pipeline of projects that will underwrite growth for many years.

The shares spiked 25% on the announcement last week, on good turnover. The usual profit taking saw them come off at the end of the week. On a point of disclosure, interests associated with the author continue to be one of the largest shareholders in Lucapa. We see that the shares are ridiculously cheap at these levels and in all probability, if they stay at these levels, we will embark upon more purchases. Lucapa is still the best diamond story I have seen in 35 years.

*Disclosure: FEC has received capital raising fees from Lucapa in the past, and interests associated with the author owns shares and options.*

### **Very high grade cobalt intercept from Blackstone**

BSX has delivered on-cue with the intercepts of 4.3m at 1% Co and 15 gpt gold, and 1.1m at 3% Co and 44 gpt, from its Little Gem project in British Columbia. There are no surprises here as the results from this single drill hole are consistent with historical results.

We previously commented that BSX is shaping up as having potentially explosive upside potential. The share structure is tight, the cobalt grades are amongst the best that you will ever see, and the gold grades are not too shabby either. Now that the placement has been done (subject to completion of tranche two), the funding is also under control. This drill hole, undertaken by BSX, provides comfort that the grades are real.

There won't be any more results from the field during the northern winter, but that shouldn't stop people from getting a seat at the table. Maybe there will be improved liquidity in the shares if recent placees decide to take an early turn.

*Disclosure: FEC assisted in the recent placement by BSX and received capital raising fees. Interests associated with the author own shares and options in Blackstone.*

### **Orinoco Gold is delivering for shareholders**

Those clients of FEC who took up the Orinoco placement in December will be feeling pleased with themselves. The share and option package that cost 2¢ is now worth 8.4¢, when the value of the options is included. Short term traders might think that it is time to take profits, but there is much more mileage left for those who want to hang on.

**Sentiment Indicator:** Sentiment is essential steady, but with a slight increase in stocks in downtrends. There were 51% (51%) of the charts in uptrend and 30% (28%) in downtrend on Friday's close.

OGX offers us a very good case study of what can happen when commissioning risk is involved. The shares were trading above 20¢ when the Company embarked upon the project. The spectacularly high gold grades promised to deliver Eldorado, but the reality was very different. The management at the time opted for fancy gravity recovery techniques that were ineffective for the fine gold, which constitutes a large component of the valuable metal. As a result, it seems that substantial quantities of gold went out to the tailings. They will probably be reprocessed so the gold can still be recovered, but this time around it will be at extremely low cost.

The gold recovery wasn't all that was stuffed up by management. The underground mining method was ill-designed, resulting in excessive dilution. A combination of mining and processing mistakes took the company to within whiskers of going belly up. That is what can happen with commissioning risk, and that is why we constantly caution investors about taking it on.

Fortunately the shareholders (and financiers) recognised what was going on and they took affirmative action. Management was changed, twice, and there were wholesale changes at board level. An experienced in-country operations manager was appointed and he set the wheels in motion for a turnaround.

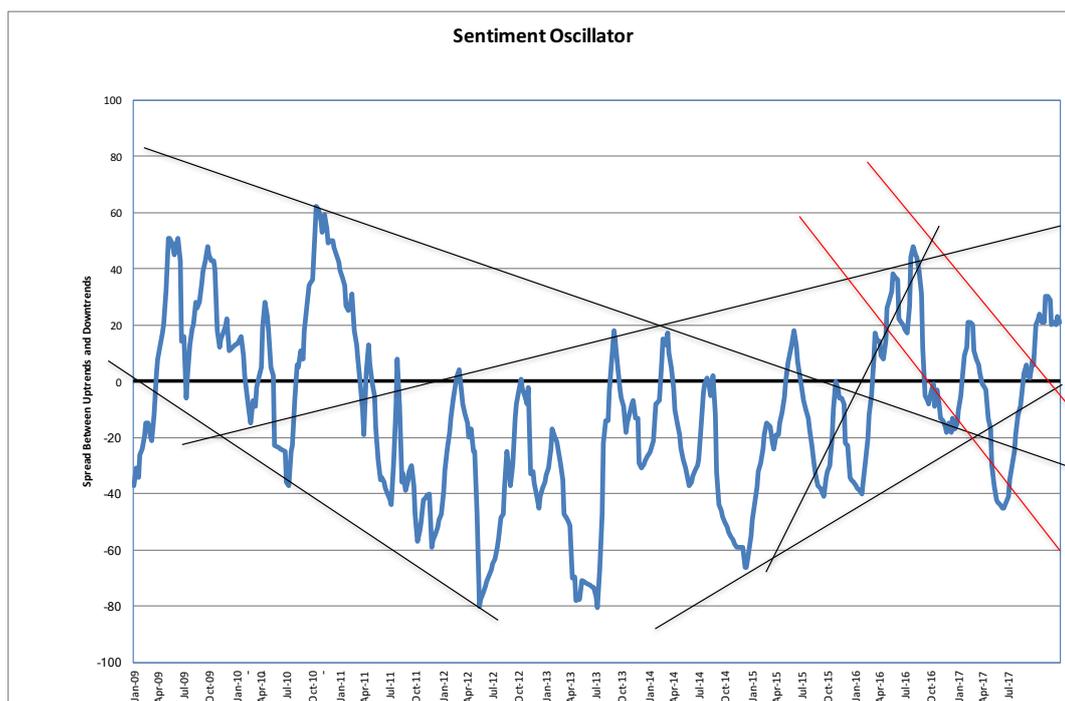
The recent placement was the inflection point. It was certainly a speculative entry, not without risk, but there was light at the end of the tunnel. Management believed it had resolved the operations issues but needed the comfort of extra dollars in the kitty. As previously opined, this could be the turnaround story of the year. We have to make sure that management delivers on its optimism and we won't be 100% certain until some months down the track, but so far so good. It has been, and will continue to be, an outstanding risk/reward scenario.

*Disclosure: FEC assisted in the recent placement by Orinoco and received capital raising fees. Interests associated with the author own shares and options in Orinoco.*

### **BBX - trading again after a five month suspension**

One of the fundamental principles of an ASX listing is the tradability of shares. It is the liquidity of one's investment that is paramount. How then, can a company go into voluntary suspension for five months, and still look shareholder's in the eye?

BBX came back onto the bourse last week, with more results, but these do nothing to quell the scepticism that we have previously expressed regarding gold grades and recovery. I suppose you are either a believer, or not, but hiding the company from scrutiny by going into a suspension for five months is unacceptable conduct.



## 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	off a new high	
Metals and Mining	XMM	surged o a new high	
Energy	XEJ	surged to a new high	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	continuing in downtrend	gold
Aeon Metals	AML	correcting from new high	copper + cobalt
Alacer Gold	AQG	holding uptrend	gold – production
Alkane Resources	ALK	down after hitting LT resistance	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	downtrend, wedge forming	phosphate
Alicanto Minerals	AQI	shallow uptrend emerging	gold exploration
Allegiance Coal	AHQ	still in downtrend	coal
Alliance Resources	AGS	sideways	gold exploration
Altech Chemicals	ATC	heavy correction	industrial minerals - synthetic sapphire
Anova Metals	AWV	falling again	gold
Antipa Minerals	AZY	sideways	gold
Apollo Consolidated	AOP	hugging uptrend line	gold exploration
Archer Exploration	AXE	breaching support line	magnesite, graphite
Argent Minerals	ARD	still in downtrend	polymetallic
Artemis Resources	ARV	down	gold, nickel
Aspire Mining	AKM	off its low	coal
Alta Zinc	AZI	sideways at lows	zinc
Aurelia Metals	AMI	correcting from new high	gold + base metals

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Aus Tin	ANW		new high	tin, cobalt
Australian Bauxite	ABX		continuing in downtrend	bauxite
Australian Potash	APC		weaker, in shallower downtrend	potash
Australian Mines	AUZ		re-approaching highs	cobalt/nickel
Australian Vanadium	AVL		strongly higher on metallurgical test results	vanadium
Avanco Resources	AVB		sideways to lower	copper
AWE	AWE		new high	oil and gas
Azure Minerals	AZS		down	silver
BHP	BHP		new high	diversified
Base Resources	BSE		weakening	mineral sands
Bathurst Resources	BRL		new high	coal
Battery Minerals	BAT		rallying	graphite
BBX Minerals	BBX		suspended	gold
Beach Energy	BPT		new high	oil and gas
Beadell Resources	BDR		around lows again	gold
Berkeley Energia	BKY		uptrend	uranium
Berkut Minerals	BMT		spiked to new high, then heavy fall	cobalt
Blackham Resources	BLK		new low	gold
Blackstone Minerals	BSX		near highs	gold, cobalt
Broken Hill Prospect.	BPL		strongly higher	minerals sands, cobalt
Buru Energy	BRU		strongly higher	oil
Canyon Resources	CAY		fallen back to support line	bauxite
Cardinal Resources	CDV		breached uptrend	gold exploration
Cassini Resources	CZI		rising	nickel/Cu expl.
Chalice Gold	CHN		on support line	gold
Cobalt Blue	COB		near highs again	cobalt
Comet Resources	CRL		near highs	graphite/graphene
Consolidated Zinc	CZL		continuing weakness	zinc
Corizon Mining	CZN		down	cobalt
Crusader Resources	CAS		new low	gold/iron ore
Dacian Gold	DCN		new high	gold exploration
Danakali	DNK		testing uptrend	potash
Doray Minerals	DRM		testing downtrend	gold
Draig Resources	DRG		at highs	gold
Eden Innovations	EDE		testing downtrend	carbon nanotubes in concrete
Emerald Resource	EMR		sideways to higher	gold
Evolution Mining	EVN		gently stronger	gold
Excelsior Gold	EXG		slump, testing uptrend	gold
Finders Resources	FND		stronger	copper
FAR	FAR		sideways	oil/gas
First Cobalt	FCC		sideways	cobalt
First Graphene	FGR		strong rise	graphite
Fortescue Metals	FMG		wedge forming	iron ore
Galaxy Resources	GXY		steeply higher	lithium
Galilee Energy	GLL		breached uptrend	oil and gas, CBM
Gascoyne Resources	GCY		testing steeper downtrend	gold
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		uptrend continuing	gold exploration
Graphex Mining	GPX		testing uptrend	graphite
Heron Resources	HRR		still down	zinc

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Highfield Resources	HFR	■	rallying	potash
Highlands Pacific	HIG	■	correcting from recent high	copper, nickel
Hillgrove Resources	HGO	■	sideways	copper
Iluka Resources	ILU	■	surged higher	mineral sands
Image Resources	IMA	■	sideways within uptrend	mineral sands
Independence Group	IGO	■	rallied to new high	gold, nickel
Intrepid Mines	IAU	■	sideways	copper
Karoo Gas	KAR	■	new uptrend started	gas
Kasbah Resources	KAS	■	in secondary downtrend	tin
Kibaran Resources	KNL	■	sideways	graphite
Kin Mining	KIN	■	breached ST uptrend	gold
Legend Mining	LEG	■	spiked on promising intercept	exploration
Lepidico	LPD	■	back to near highs	lithium
Lithium Australia	LIT	■	rising again	lithium
Lucapa Diamond	LOM	■	rally on new discovery	diamonds
Macphersons Res.	MRP	■	downtrend	silver
Marmota	MEU	■	sideways	gold exploration
MetalsX	MLX	■	new high	tin, nickel
Metro Mining	MMI	■	at highs	bauxite
Mincor Resources	MCR	■	holding uptrend	nickel
Mineral Deposits	MDL	■	uptrend steepening	mineral sands
Myanmar Minerals	MYL	■	breached uptrend	zinc
MZI Resources	MZI	■	falling again	mineral sands
Northern Cobalt	N27	■	fallen to support line	cobalt
Northern Minerals	NTU	■	down again	REE
Northern Star Res.	NST	■	rising again	gold
NTM Gold	NTM	■	longer term downtrend forming	gold
Oceana Gold	OGC	■	down after steep fall	gold
Oklo Resources	OKU	■	new high	gold expl.
Orecorp	ORR	■	strong rally	gold development
Orinoco Gold	OGX	■	surge out of downtrend	gold development
Orocobre	ORE	■	new high	lithium
Oz Minerals	OZL	■	continuing in uptrend	copper
Pacific American Coal	PAK	■	new uptrend commenced	coal, graphene
Pantoro	PNR	■	sideways to higher	gold
Panoramic Res	PAN	■	on support line	nickel
Peel Mining	PEX	■	consolidating outside of trend	copper
Peninsula Energy	PEN	■	new uptrend forming	uranium
Perseus Mining	PRU	■	testing downtrend	gold
Pilbara Minerals	PLS	■	new high	lithium/tantalum
PNX Metals	PNX	■	sideways	gold, silver, zinc
Red River Resources	RVR	■	holding longer term uptrend	zinc
Regis Resources	RRL	■	near highs again	gold
Resolute Mining	RSG	■	rallying off lows	gold
RIO	RIO	■	new high	diversified
Salt Lake Potash	SO4	■	less steep downtrend	potash
Saracen Minerals	SAR	■	uptrend	gold
St Barbara	SBM	■	strong	gold
Sandfire Resources	SFR	■	rising	copper
Santana Minerals	SMI	■	new low	silver

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Santos	STO		steeply higher	oil/gas
Sheffield Resources	SFX		down	mineral sands
Silver Lake Resources	SLR		testing downtrend	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		confirming uptrend	gas
Southern Gold	SAU		drifting lower	gold
Stanmore Coal	SMR		rising	coal
Sundance Energy	SEA		confirming uptrend	oil/gas
Syrah Resources	SYR		new high then heavy correction	graphite
Talga Resources	TLG		improving	graphene
Tanami Gold	TAM		down	gold
Tempo Australia	TPP		testing downtrend	mining services
Tiger Realm	TIG		spiked higher, off lows	coal
Torian Resources	TNR		new low	gold expl'n
Triton Minerals	TON		uptrend being tested	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		spiked higher, then heavy fall	gold exploration
Vango Mining	VAN		but having a good rally	gold
Vimy Resources	VMY		new uptrend confirmed	uranium
West African Resources	WAF		uptrend	gold
Westwits	WWI		new uptrend on Pilbara deal, but pullback	gold exploration/development
Western Areas	WSA		rallying	nickel
White Rock Minerals	WRM		new low	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		down again	gold
Wolf Minerals	WLF		new low	tungsten
Totals	51%	73	Uptrend	
	30%	43	Downtrend	
		144	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.
- 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	32	22.2%	
Gold Exploration	15	10.4%	
Copper	11	7.6%	
Coal	9	6.3%	
Oil/Gas	9	6.3%	
Mineral Sands	7	4.9%	
Graphite	8	5.6%	
Zinc	7	4.9%	
Silver	6	4.2%	
Lithium	6	4.2%	
Nickel	4	2.8%	
Potash/Phosphate	5	3.5%	
Cobalt	6	4.2%	
Uranium	3	2.1%	
Bauxite	3	2.1%	
Tin	3	2.1%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	7		
Total	144		

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