

7 April 2018

Charts on Friday's Close

Analyst : Warwick Grigor

## Look at special situations while markets remain unconvincing

In commenting on the macro view of the markets this week a couple of charts tell the story. Firstly, the 12 month chart of the Dow shows a clear breach of the uptrend, and a downtrend that is firmly entrenched. Whenever a chart peaks, there is a tussle between the bulls and the bear. This is what has been giving us the volatility we have seen in 2018.



Compare the chart of the S&P ASX 200 over the same period, below. Australia was late in joining the party, but then it had a massive run. While the reversal pattern has been similar to the Dow, it has been more aggressive. Could we be bottoming out before the US? We certainly don't seem to have as far to fall from here.



### Lucapa's \$15m placement will be the turning point

At the risk of being the boy who cried wolf one too many times, I see the \$15m placement at 23¢ by Lucapa as the last piece of the jigsaw puzzle. Expanding businesses need greater amounts of working capital and the diamond business is no different. The market has been aware of the tightness of cash flow projections in 2018, and the need to raise more money, so there was the overhang in the market. That issue has now been resolved.

As good as the Angolan alluvial diamond mine is, and the prospectivity for the source kimberlite, LOM has been struggling to find sustainable support in the market. However, the dynamics around this company could change

dramatically with the start of work on the Brooking lamproite pipe in the coming dry season, in the Kimberley region of WA. Remember that in a hole drilled last year the Company recovered 119 diamonds. This is an exceptional result, but if it is indicative of the diamond population in this pipe we could be seeing something really big.

The placement mostly went to three high net worth investors, but the lift from the originally sought \$13m suggests other players have come in. Provided all of these guys are serious investors, as opposed to short term punters, we have most likely seen the bottom of the downtrend. That means it is all upside from here.

*Disclosure: Interests associated with the author owns shares and options in Lucapa and have received payments for capital raising services.*

### Cobalt stocks have been tardy - except one or two

Notwithstanding the obvious fundamentals, cobalt stocks have mostly been on the wane. **Cobalt Blue** has been the exception at the vanguard with a very strong performance, and **Celcius** has broken its downtrend and revisited highs, but stocks like **Blackstone** and **Northern Cobalt** have been lethargic. These last two have been digesting share issues, so there has been a short term oversupply of stock. That supply has been exacerbated in Northern Cobalt's case due to the release of escrowed stock. Nevertheless, the merit is there and I for one have been taking advantage of the excess supply, adding to my holdings.

Another cobalt stock that presented to me last week was **Meteoric Resources (MEI)**. It has a portfolio of cobalt licences NE of the Sudbury Basin in Ontario that have been historical producers from veins that range from 1 to 4m in width. Historical grades are high, peaking up around 10% Co, but modern operations should not really be expecting anything better than 1-3%. Nevertheless, this is high grade. The targets for the company are small scale, high grade vein deposits, but likely to be quite profitable. Exploration work is required before becoming too enthusiastic, notwithstanding the potential.

Meteoric provided a useful statistic in its presentation. Only 2% of cobalt supply comes from primary cobalt mines. Of the rest, 60% comes as a by-product from copper mines and 38% from nickel mines. The cobalt supply response continues to be problematic.

### Blackstone brings Little Gem drilling program forward

I have previously said that BSX looked primed for a much higher price at some point in the future. Maybe this will coincide with drilling results from the coming summer

program which has been brought forward with the rig planned to be on site as we write. The first 12 holes will test 300m of strike with four lines of three holes each. The target is a 10-20m wide zone that hosts two lenses, each 5-10m thick. Given the dimensions (300m x 4m to 160m depth) there is potential for 576,000 tones for each lense. At 15 gpt, there is potential for half a million ounces of gold and the equivalent value in cobalt i.e. 1 Moz gold equivalent.

The first holes BSX drilled late in 2017 only hit the first of these lenses, but it still returned 4.3m at 1% Co and 15 gpt gold, with a higher grade core of 1.1m at 3% Co and 44 gpt gold.

The Little Gem mineralisation is hosted in a pegmatite-style granodiorite, both semi-massive and disseminated, which gives zones of higher and lower grades. The key to finding the mineralisation is the ultramafic contact, with gold mineralisation being plumbed through this and pulling cobalt out along the journey.

You can call this a gold or a cobalt play, whichever gives you the greatest pleasure. They both appear in high grades and together they could underwrite a very profitable operation. The mine product would be an arsenic-rich concentrate with gold and cobalt. Normally the arsenic component would be problematic, but there is a permitted treatment plant 25 km away by road, on care and maintenance. This 100,000 tpa plant would cost \$50m to replace but the real value is in the permit, which would normally take years to secure. There could be a smart deal done to treat ore from Little Gem, if it gets to the mining stage.

BSX's share price lost momentum when it did a two tranche placement late in 2017. These shares have had to be digested at the same time that Canadian vendors have been selling. Simultaneously there has been a lack of news flow. That will change with drilling commencing now. Additionally, the share structure of the company points to a higher share price with performance options requiring a \$75m market capitalisation and a JORC resource. Currently the market capitalisation is around \$35m.

*Disclosure: Interests associated with the author owns shares in Blackstone, Cobalt Blue and Northern Cobalt. FEC was Lead Manager for the Cobalt Blue IPO.*

### Battery market review

The markets are full of enthusiasm for battery input materials due to rising commodity prices for cobalt, lithium and nickel in 2017 and into 2018. However, the rises in these prices has the potential to undermine the competitiveness of the EVs. Berenberg Capital Markets has pointed to a slowing in the cost reductions in battery manufacturing, declining by only 11% in 2017, compared to the 19% fall in 2016. It sees that EV battery costs could settle at more than \$160/kWh, much higher than \$100/kWh needed to match internal combustion engines. There will be a need for more rapid innovation to close the gap before subsidies begin to be scaled back in a few years.

### Red 5 is back in the land of the living

Red 5 is best known for its Sianna gold mine in the Philippines and for the problems it has experienced over the years, including issues with the competency of its

tailings dam and delays in achieving regulatory approvals. Mining activities were suspended in April 2017 in response to the latter. The future of this mine is dependent upon underground ore sources, with a resource of 3.8 Mt at 4.6 gpt for 504,000 oz. AISC are estimated at US\$790-\$840/oz.

With the level of uncertainty regarding Sianna, RED has been concentrating on the recently acquired Darlot gold mine and the King of the Hills project, 90 km distant. Darlot was acquired from Gold Fields Limited, in Q3 of 2017, at a cost of \$18m in cash and shares in staged payments. The assets purchased comprised the Darlot gold mine, with average historical production of 94,000 oz since 1989, an 830,000 tpa treatment plant and associated infrastructure and a SAMREC Mineral Resource of 1.2 Mt at 6 gpt for 224,000 oz of gold.

In a parallel move, RED purchased King of the Hills off Saracen for \$16m in cash and shares. Located 80 km south of Darlot, King of the Hills had a JORC Resource of 2.71 Mt at 4.6 gpt for 402,000 oz. Funding for the deals came from a 1 for 3 rights issue at 5¢ (\$12.7m).

As a generalisation, Australian companies have done very well out of buying back gold mines from foreign owners in recent years, with the local companies having the benefit of more focused and flexible management than previous owners. Darlot looks like it will be similar scenario with the maiden JORC resource increasing to 6 Mt at 4.6 gpt, for 895,000 oz. This is a quadrupling of the gold.

The market capitalisation of RED is only \$86m. The cash balance is \$21m, giving an enterprise value of \$65m. That equates to \$47/oz of resources, which is half the valuation given to many of the company's peers. The Darlot and King of the Hills projects give the company a platform on which to grow whilst Sianna is sorting itself out.

While the technical operations justify more commentary than space allows in this column, it is easily apparent that the RED share price is not expensive. How quickly and how significantly the share price rises from here will depend upon how effectively management presents the new look company to investors, and how smoothly the ramp up of gold production proceeds. We have resumed chart coverage of Red 5.

### Cryptocurrencies - when "mining" becomes confusing

As a long term mining man I must admit to being concerned with the use of the word "mining" in an activity that couldn't be more removed from what mining has been associated with, for hundreds and even thousands of years. Mining is traditionally one of the most basic, hands-on activities that leave an impression of down-to-earth solidarity. Cryptocurrencies belong in a completely different world.

I saw a presentation by Chapmans Ltd (CHP), an investment company, stating that GPU One "is an excellent investment opportunity". Under the bullet point of Strong Fundamentals, it referenced "power, temperature and properties". It describes bitcoin as a currency based on a decentralised peer-to-peer network that enables trust-less transactions with anonymous parties anywhere in the world without the need for banks. The triple entry accounting method is verified by a *mining network* that can record any asset ownership, from artwork to legal contracts. The miners are rewarded with coins for verifying transactions in a blockchain.

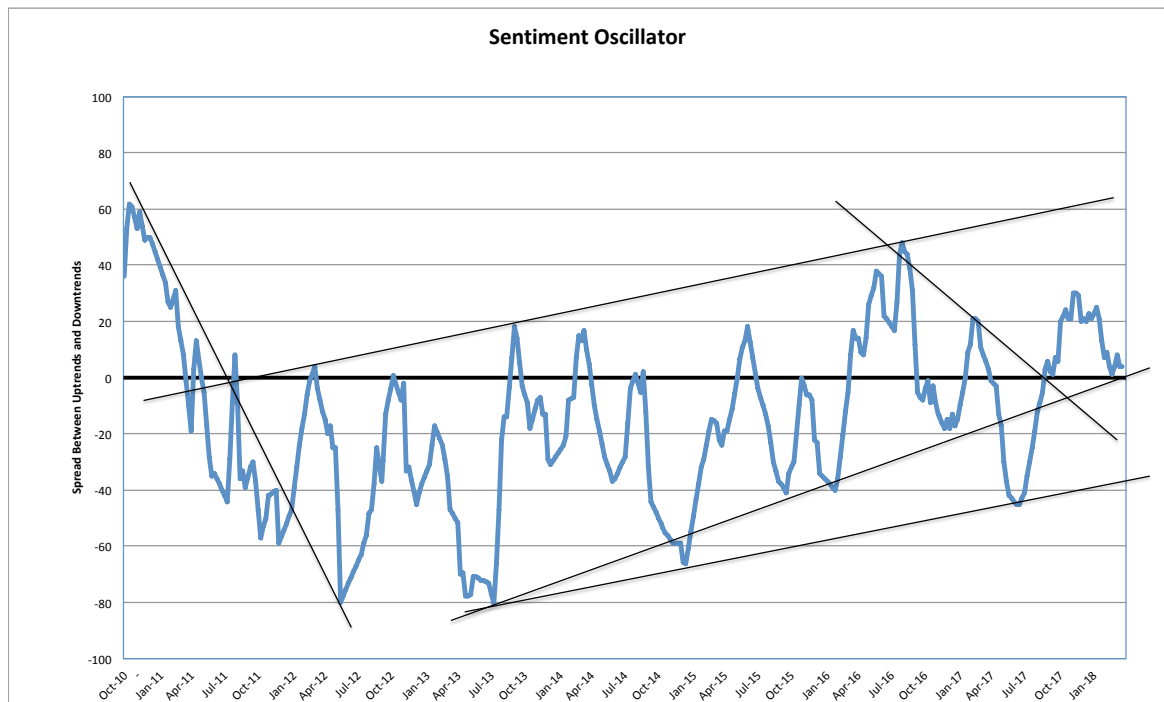
In order to do the mining, you need an ASIC (Application Specific Integrated Circuit), which are silicon chips made for mining Bitcoin, first created in 2013. You also need a GPU (Graphical Processing Unit) to solve complex 3D imaging algorithms. That is all very different to the yellow kit I see at mine sites. Key selling points for GPU One include;

- ability to mine multiple currencies
- strong relationship with ASIC and GPU suppliers
- very low electricity costs
- low average temperatures (Quebec) -2.6 degrees
- Leveraged proprietary software to optimise mining yield, monitoring over 70 exchanges
- 30 software engineers

- mining experts with over 10 years experience
- up to 18 MW electricity capacity
- property leased until 2072
- electric substation only 1 km away
- within 15 minutes of an airport
- 40 foot high ceilings (reduces cooling costs)

It is a very different world.

*NB: This may be the last Weekly for several weeks as I will be travelling in Europe and the USA, mostly presenting FGR to investors but also attending a couple of gold and mining conferences.*





















































**Sentiment Indicator:** Sentiment reversed the previous weeks gains as support lines started to give way in a number of situations. 38% (35%) of the charts in uptrend and 34% (31%) in downtrend on Friday's close.

### 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	just fallen below the support line	
Metals and Mining	XMM	still falling towards major trend line	
Energy	XEJ	positive break upside	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest

*This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.*






















ABM Resources	ABU		at final resistance	gold
Aeon Metals	AML		rising again	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		breached secondary downtrend	phosphate
Alicanto Minerals	AQI		down	gold exploration
Allegiance Coal	AHQ		breached support	coal
Alliance Resources	AGS		testing downtrend	gold exploration
Altech Chemicals	ATC		holding on support line	industrial minerals - synthetic sapphire
Anova Metals	AWV		falling again	gold
Antipa Minerals	AZY		new low	gold
Apollo Consolidated	AOP		testing short term correction	gold exploration
Archer Exploration	AXE		breached steepest downtrend	magnesite, graphite
Argent Minerals	ARD		still in downtrend	polymetallic
Aurelia Metals	AMI		new high	gold + base metals
AusTin	ANW		down	tin, cobalt
Australian Bauxite	ABX		testing downtrend	bauxite
Australian Potash	APC		wedge forming	potash
Australian Mines	AUZ		sideways	cobalt/nickel
Australian Vanadium	AVL		correcting	vanadium
Avanco Resources	AVB		take-over at 100% premium	copper
Azure Minerals	AZS		testing downtrend	silver
BHP	BHP		lower	diversified
Base Resources	BSE		sideways through downtrend	mineral sands
Bathurst Resources	BRL		correcting lower	coal
Battery Minerals	BAT		correcting lower	graphite
BBX Minerals	BBX		down	gold
Beach Energy	BPT		new high	oil and gas
Beadell Resources	BDR		another new low	gold
Berkeley Energia	BKY		uptrend breached	uranium
Berkut Minerals	BMT		spiked to new high, then heavy fall	cobalt
Blackham Resources	BLK		strong recovery from lows	gold
Blackstone Minerals	BSX		continuing with uptrend	gold, cobalt
Broken Hill Prospect.	BPL		surged higher	minerals sands, cobalt
Buru Energy	BRU		correcting lower	oil
Cardinal Resources	CDV		testing short term downtrend	gold exploration
Cassini Resources	CZI		sideways	nickel/Cu expl.
Celsius Resources	CLA		back to highs	copper/cobalt
Chalice Gold	CHN		heading lower	gold
Cobalt Blue	COB		new high	cobalt
Comet Resources	CRL		down	graphite/graphene
Consolidated Zinc	CZL		continuing weakness	zinc
Crusader Resources	CAS		new low	gold/iron ore
Dacian Gold	DCN		back to highs	gold exploration
Danakali	DNK		sideways under resistance line	potash
Doray Minerals	DRM		testing new uptrend	gold
Draig Resources	DRG		testing uptrend	gold
Eden Innovations	EDE		down	carbon nanotubes in concrete
Egan Street Resources	EGA		sideways	gold
Emerald Resource	EMR		gently down	gold
Evolution Mining	EVN		new high	gold
Excelsior Gold	EXG		slump, testing uptrend	gold
FAR	FAR		sideways	oil/gas

This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.

First Cobalt	FCC	back to lows	cobalt
First Graphene	FGR	strong rise	graphite
Frontier Diamonds	FDX	down after IPO	diamonds
Fortescue Metals	FMG	downtrend	iron ore
Galaxy Resources	GXY	continuing down	lithium
Galilee Energy	GLL	new high	oil and gas, CBM
Gascoyne Resources	GCY	testing steeper downtrend	gold
Global Geoscience	GSC	new high	lithium
Gold Road	GOR	new high	gold exploration
Golden Rim	GMR	down	gold exploration
Graphex Mining	GPX	breaching downtrend	graphite
Heron Resources	HRR	testing downtrend	zinc
Highfield Resources	HFR	long term downtrend	potash
Highlands Pacific	HIG	breached uptrend	copper, nickel
Hillgrove Resources	HGO	sideways	copper
Iluka Resources	ILU	new high	mineral sands
Image Resources	IMA	down	mineral sands
Independence Group	IGO	sideways	gold, nickel
Jervois Mining	JVR	downtrend	nickel/cobalt
Karoon Gas	KAR	testing new uptrend	gas
Kasbah Resources	KAS	still in LT downtrend	tin
Kibaran Resources	KNL	gently lower	graphite
Kin Mining	KIN	down heavily	gold
Legend Mining	LEG	falling to support line	exploration
Lepidico	LPD	back to near highs	lithium
Lithium Australia	LIT	breached uptrend	lithium
Lucapa Diamond	LOM	forming a base	diamonds
Macphersons Res.	MRP	down	silver
Marmota	MEU	down	gold exploration
MetalsX	MLX	breached long term support line	tin, nickel
Metro Mining	MMI	at highs	bauxite
Mincor Resources	MCR	breached uptrend	nickel
Mineral Deposits	MDL	uptrend steepening	mineral sands
Myanmar Minerals	MYL	downtrend	zinc
MZI Resources	MZI	testing downtrend	mineral sands
Neometals	NMT	down	lithium
Northern Cobalt	N27	down again	cobalt
Northern Minerals	NTU	down again	REE
Northern Star Res.	NST	off its high	gold
NTM Gold	NTM	down	gold
Oceana Gold	OGC	testing downtrend	gold
Oklo Resources	OKU	in a rising wedge	gold expl.
OreCorp	ORR	breached recent uptrend	gold development
Orinoco Gold	OGX	breached steep uptrend	gold development
Orocobre	ORE	downtrend confirmed	lithium
Oz Minerals	OZL	continuing in uptrend	copper
Pacific American Coal	PAK	heavy correction	coal, graphene
Pantoro	PNR	new high	gold
Panoramic Res	PAN	on support line	nickel
Peel Mining	PEX	surge to new high, then pullback	copper
Peninsula Energy	PEN	back in downtrend	uranium
Perseus Mining	PRU	breached downtrend	gold
Pilbara Minerals	PLS	breached uptrend	lithium/tantalum
PNX Metals	PNX	down	gold, silver, zinc

This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.



Red %	RED		uptrend	gold
Red River Resources	RVR		fallen to support line	zinc
Regis Resources	RRL		new high	gold
Resolute Mining	RSG		sideways	gold
RIO	RIO		testing support line	diversified
Salt Lake Potash	SO4		breached downtrend	potash
Saracen Minerals	SAR		new high	gold
St Barbara	SBM		strong	gold
Sandfire Resources	SFR		back to support line	copper
Santana Minerals	SMI		new low	silver
Santos	STO		surge on bid	oil/gas
Sheffield Resources	SFX		rising again	mineral sands
Sino Gas & Energy	SEH		confirming uptrend	gas
Southern Gold	SAU		drifting lower	gold
Stanmore Coal	SMR		rising	coal
Sundance Energy	SEA		testing uptrend	oil/gas
Syrah Resources	SYR		back to downtrend	graphite
Talga Resources	TLG		breaching resistance line	graphene
Tanami Gold	TAM		down	gold
Tempo Australia	TPP		testing downtrend	mining services
Tiger Realm	TIG		spiked higher, off lows	coal
Torian Resources	TNR		testing downtrend	gold expl'n
Triton Minerals	TON		uptrend being tested	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		uptrend developing	gold exploration
Vango Mining	VAN		back to highs	gold
Vector Resources	VEC		rallying	gold
Vimy Resources	VMY		down	uranium
Volt	VRC		uptrend	graphite
West African Resources	WAF		uptrend	gold
Westwits	WWI		sideways	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	38%	54	Uptrend	
	34%	49	Downtrend	
		143	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

*This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.*

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	23.8%	
Gold Exploration	15	10.5%	
Copper	9	6.3%	
Coal	8	5.6%	
Oil/Gas	8	5.6%	
Graphite	9	6.3%	
Mineral Sands	7	4.9%	
Cobalt	6	4.2%	
Zinc	6	4.2%	
Lithium	7	4.9%	
Silver	5	3.5%	
Nickel	5	3.5%	
Potash/Phosphate	5	3.5%	
Uranium	3	2.1%	
Bauxite	2	1.4%	
Tin	3	2.1%	
Diamonds	3	2.1%	
Iron Ore	1	0.7%	
Other	7		
Total	143		

**FEC Disclosure of Interests:** It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. In this week's publication FEC discloses that interests associated with the the author hold shares in MacPhersons and Orinoco. The author is chairman of First Graphene and one of the largest shareholders, through a number of entities. Over the last three years FEC has received fees from Blackstone Minerals, Broken Hill Prospecting, Cobalt Blue, First Graphene, Lucapa Diamond Company, Orinoco Gold and West Wits for corporate and capital raising services. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.

Disclaimer: This Research Report has been prepared exclusively for Far East Capital clients and is not to be relied upon by anyone else. In compiling this Commentary, we are of necessity unable to take account of the particular investment objectives, financial situation and needs of any of our individual clients. Accordingly, each client should evaluate the recommendations obtained in this Commentary in the light of their own particular investment objectives, financial situation and needs. If you wish to obtain further advice regarding any recommendation made in this Commentary to take account of your particular investment objectives, financial situation and needs, you should contact us. We believe that the advice and information herein are accurate and reliable, but no warranty of accuracy, reliability or completeness is given and (except insofar as liability under any statute cannot be excluded) no responsibility arising in any other way for errors or omissions or in negligence is accepted by Far East Capital Limited or any employee or agent. For private circulation only. This document is not intended to be an offer, or a solicitation of an offer, to buy or sell any relevant securities (i.e. securities mentioned herein or of the same issuer and options, warrant, or rights with respect to or interests in any such securities). We do not guarantee the accuracy or completeness of the information herein, or upon which opinions herein have been based. At any time we or any of our connected or affiliated companies (or our or their employees) may have a position, subject to change, and we or any such companies may make a market or act as principal in transactions, in any relevant securities or provide advisory or other services to an issuer of relevant securities or any company therewith. Unless otherwise stated all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice. This document may not be reproduced or copies circulated without authority. Copyright © Far East Capital Ltd 2018.