

## Money still flowing out of mining stocks

The market is still going through a phase whereby funds are flowing out of mining and oil stocks. Maybe it is seasonal, maybe it is technical, but there is definitely a shortage of buyers right now. In times like this we all look at our portfolio and question what is being done about stock promotion and news flow, but the reality is that such ponderings are usually a waste of time. It is very difficult to swim against the tide. You need to assess it from a broad market perspective, and be patient.

The fall in the iron ore price by 33% has helped with the big end of town. A number of copper stocks that were performing well on infrastructure expectations have now run out of steam. Battery inputs stocks are going downhill, with lithium and graphite companies offering only downside. Cobalt stocks have all pulled back sharply, but this is more likely profit taking and parking money on the sidelines. The shortage of cobalt is not going away in a hurry, so expect another wave in the cobalt cycle at some point. This next tick upwards will be more subdued though, as investors are starting to learn what is and isn't important in the cobalt space. More measured buying will be the driver.

### *The gold price movements not firing up stocks*

A good example of the underperformance of equities has been the failure of gold stocks to respond to the better gold price. Some of the larger producers have responded but the vast bulk of gold equities seem to be watching and waiting. It is as if the market doesn't believe what it is seeing. Yet the market is still happy to respond to good exploration news, such as Kin Mining, which looks like has found a primary orebody beneath the weathered zone orebody at Cardinia, near Kalgoorlie.

### *Big picture politics*

The media and main stream markets are focusing on big picture politics at present rather than economics and finance. The progression of North Korea on the nuclear capability path is a worry with the worst case scenario being a show stopper. The best case scenario would be for China to exercise its control, in the interests of world stability, but it would seek a quid pro quo from America. Could this be the inflection point where China takes over from the USA as the most powerful influence on international politics? Will it be a trade-off whereby the USA is forced to accept the Spratly Islands strategy being pursued by China?

Syria continues to be an open wound, with the problems there maybe having something to do with Alacer's weak share price. One can't help but wonder whether Turkey's president is seeking to get a stranglehold on politics in his own country before deciding to move into Syria on the basis that it is an unacceptable situation to have going on in its neighbouring country. Russia might not be happy, but the USA would probably be relieved to leave it to the locals to sort out their own region.

The French, and now the impending UK election, will either make the world more stable or more volatile, depending upon the outcomes. The pendulum is swinging towards a more aggressive world, which ever way you look, as a pushback on the whimpishness that has constrained governments over the last decade is pushed aside. The movement to homogenise the world is being rejected by vested cultural interests that are fighting for their survival. Democracy as a concept is under threat where it fails to recognise these cultures. Just ask the French.

Rather than a struggle between labour and capital, the traditional battleground, we are now in an age of struggle between globalisation and cultural preservation. Big international corporations have aligned themselves with the multiculturalists even though their agenda is completely different. The companies want to make profits that take advantage of globalisation and freedom of labour movements, while the left wing activists want a greater emphasis on inclusion as they seek to promote integration and eventual takeover of their newly found homes.

So where does this leave the average punter in the stock market? I'm still trying to figure that one out.

### *Looking for a good zinc play? Try Consolidated Zinc*

CZL dropped in to see me during the week. Whilst I was aware of its existence, I had never had the chance to meet management before. I was impressed with what I saw. With a market capitalisation of only \$10m, it looks like it is all upside from here. Why is it so cheap? Maybe because its project is in Mexico and the Australian punters can't get their heads around it.

The Plomosas Zinc Project is located in the the state of Chihuahua, well known for its mining credentials. The project has a long history of production. Between 1945 and 1974, the Grupo Mexico mined 2.5 Mt at 24% Zn+Pb and 80 gpt Ag, to a depth of 260m. Thus it is high grade. The Martinez family acquired the project and conducted intermittent remnant mining from 1978 to 2014, at which time CZL acquired a 51% interest, with the right to go to 100%.

By the end of 2015, CZL had spent \$1.4m dewatering the mine, which has water inflow of 4m<sup>3</sup>/minute. The pumps can now handle the inflow while operating on a 10 day on/ 20 day off schedule. Development activity is now focusing on Levels 7 and 8.

CZL has announced a JORC resource of 568,000 t at 16.7% Zn+Pb, including an indicated portion of 99,000 t at 28.3%. While modest at the moment, it is just the beginning. The historical mining has worked the Main Manto Horizon which averaged 2.5m in thickness, but CZL has made an important discovery at Tres Amigos only 100-150m beneath the Main Manto trend. The first drill hole hit 4.7m at 42% Zn, 4.6% Pb and 32 gpt Ag. Back at Main Manto, CZL has found a 500m strike extension to the south which it has named Carola South. A 500m drive on Level 7

into this was channel sampled at 10m intervals, returning very good assays with 75% returning combined grades of better than 30%. As far as CZL knows, this zone is open above and below the 7 Level.

The real sweetener for CZL is the availability of a small processing plant already on site, that was last employed in 2011. While only having a capacity of 60,000 tpa, CZL believes it can be refurbished and expanded to a capacity of 115,000 tpa at a capital cost of US\$8m and the use of a contract crusher. The underground infrastructure has a capacity of up to 1,000 tpd with there being three shafts and two 4.5m x 5.5m declines. Mining capacity is much greater than the planned production rate of 300 tpd. At this rate CZL could be producing 14,000 tpa of metal in concentrates, generating US\$25m p.a. in revenues. Mining, processing and overhead costs are estimated at US\$70, \$25 and \$15 pt respectively. Government royalties will take 7.5% and corporate income tax 30%. Net cash flows could be in the order of US\$7-10m p.a., which suggests an attractive payback period of 12-15 months. The mine life on JORC resources would be 4-5 years.

Further out CZL would like to aim for a new treatment plant that has twice the capacity, but that will be dependent upon continued exploration success and the expansion of resources.

So how will it fund this development given that it has less than \$1m in the bank? A near term share issue is on the cards but it won't fund the development alone. Trade finance will also be looked at with CZL believing it can raise 50% of the costs through prepayment of concentrates.

The bottom line is that there is not much downside from here, with there being a possibility of making a multiple of your money. That is what I look for at the junior end, so I have already started to pick up a few in the market. We have added Consolidated Zinc to our chart coverage.

**Graphene advancements**

The announcement by Talga that test work shows it can increase thermal conductivity in concrete through the addition of graphene is positive for the graphene sector

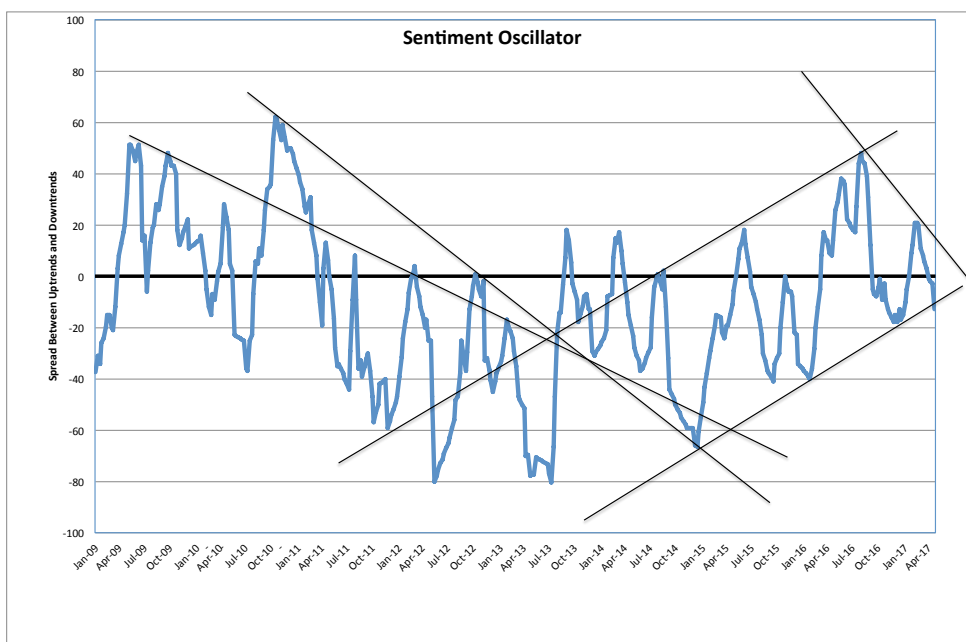
generally, but should not surprise any of the graphene watchers out there in the market.

We have seen Eden Innovations rise from \$10m to better than \$300m based on carbon nanotubes in concrete, achieving 50% improvements in performance in a number of parameters. The scientists tell us that graphene can do even better.

Talga is saying it can get 30% better conductivity by adding a blend of its primary ore, and graphene. Thus it is talking about low and high tech together. It is saying that it can sell its ore (either as run-of-mine or with only limited processing) as an additive to the concrete mix. The economics of this will depend upon proximity to concrete mixing plants, as transporting the material long distances would not be very profitable. The question to ask is whether selling the ore in this manner is better than turning it into graphene and micro graphite, and whether other graphite deposits in Sweden are equally suitable for the the mixing with concrete. The usual logistical and competitive parameters need to be assessed.

The market capitalisation of Talga has increased to \$135m on the announcement of this news, making it one of the best performing junior mining stocks in recent months, after two years of ordinary share price performance. Given that it has previously announced that it needs \$30m for its processing plant, are we seeing the groundwork being laid for an equity issue to fund its development? Time will tell. At the end of the day the market capitalisation must always align with the earnings potential.

Relating this information back to a competing graphene stock, First Graphite, it is worth noting the disparity in the market capitalisations. Talga is at \$120m while FGR is only \$32m. Yet, anything that Talga can do on the graphene front FGR can do better, at lower capex and opex. Any advancement that anyone makes in the applications for graphene will benefit the whole graphene sector, but FGR will always be the lowest cost producer due to its very high starting grade of graphite and its low capital cost. We have a rising tide in the graphene sector and FGR is well placed in the lowest cost decile.



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**Sentiment Indicator:** We have seen the crunching of sentiment last week that was needed to fulfil the pattern on the Sentiment Oscillator, from which we can expect a reversal. If so, the market should be making a recovery from these levels. The question is ... "do you believe these charts?" There were 21% (25%) of the charts in uptrend and 34% (27%) 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	pullback from its highs	
Metals and Mining	XMM	trying to hold trend line	
Energy	XEJ	pullback from its highs	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	sideways to lower	gold
Aeon Metals	AML	sideways through uptrend	copper + cobalt
Alacer Gold	AQG	breached uptrend	gold – production
Alkane Resources	ALK	fallen to new low	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	testing resistance line	phosphate
Alicanto Minerals	AQI	sideways at lows	gold exploration
Alliance Resources	AGS	sideways	gold exploration
Alltech Chemicals	ATC	resting on long term supporting trendline	industrial minerals
Anova Metals	AWV	testing downtrend	gold
Antipa Minerals	AZY	testing downtrend	gold
Apollo Consolidated	AOP	sideways at lows	gold exploration
Archer Exploration	AXE	continuing down	magnesite, graphite
Argent Minerals	ARD	pullback	polymetallic
Aspire Mining	AKM	continuing to fall	coal
Atrum Coal	ATU	sideways through downtrend	coal
Aurelia Metals	AMI	testing uptrend	gold + base metals
Auroch Minerals	AOU	breached uptrend	exploration
Aus Tin	ANW	softer	tin, cobalt
Australian Bauxite	ABX	back into downtrend	bauxite
Australian Potash	APC	continuing higher	potash
Australian Mines	AUZ	short term down	cobalt/nickel
Australian Vanadium	AVL	rising gently	vanadium
Avanco Resources	AVB	starting to test uptrend	copper
AWE	AWE	down again	oil and gas
Azure Minerals	AZS	crunch down on Kennecott withdrawal	silver
BHP	BHP	back into short term downtrend	diversified
Base Resources	BSE	breached steepest uptrend, LT uptrend now	mineral sands
Bathurst Resources	BRL	continuing higher	coal
Battery Minerals	BAT	down	graphite
Beach Energy	BPT	on long term support	oil and gas
Beadell Resources	BDR	breached ST uptrend	gold
Berkeley Resources	BKY	heavy fall, now on long term support	uranium
Berkut Minerals	BMT	down	cobalt
Blackham Resources	BLK	down heavily on production downgrade	gold
Broken Hill Prospect.	BPL	hit resistance line	minerals sands, cobalt
Buru Energy	BRU	sideways at lows	oil
Canyon Resources	CAY	new low	bauxite
Cardinal Resources	CDV	breaching uptrend after placement	gold exploration
Carnegie Clean Energy	CCE	new high	wave energy

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Cassini Resources	CZI		new high	nickel/Cu expl.
Chalice Gold	CHN		holding uptrend	gold
Cobalt Blue	COB		uptrend breached	cobalt
Consolidated Zinc	CZL		downtrend	zinc
Corizon Mining	CZN		new low	cobalt
Crusader Resources	CAS		sideways through downtrend	gold/iron ore
Dacian Gold	DCN		secondary downtrend	gold exploration
Danakali	DNK		strongly higher	potash
Doray Minerals	DRM		continuing to fall	gold
Duketon Mining	DKM		breached downtrend	nickel
Eden Innovations	EDE		breached uptrend	carbon nanotubes in concrete
Energia Minerals	EMX		heavy pullback	zinc
Equator Resources	EQU		breached uptrend	cobalt/nickel
Evolution Mining	EVN		surge through downtrend line	gold
Excelsior Gold	EXG		surge higher	gold
Finders Resources	FND		breached downtrend	copper
First Australian	FAR		new uptrend	oil/gas
First Graphite	FGR		testing downtrend	graphite
Fortescue Metals	FMG		new downtend	iron ore
Galaxy Resources	GXY		breached support line	lithium
Galilee Energy	GLL		testing uptrend	oil and gas, CBM
Gascoyne Resources	GCY		correcting lower	gold
Geopacific Res. Resources	GPR		testing downtrend	copper/gold exp.
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		testing downtrend	gold exploration
Graphex Mining	GPX		breached uptrend	graphite
Heron Resources	HRR		drifting lower	zinc
Highfield Resources	HFR		breached downtrend	potash
Highlands Pacific	HIG		edging higher	copper, nickel
Hillgrove Resources	HGO		rising again	copper
Hot Chilli	HCH		testing downtrend	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		new high	mineral sands
Independence	IGO		down	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached support line	gas
Kibaran Resources	KNL		breached support line	graphite
Kin Mining	KIN		surge on gold discovery announcement	gold
Legend Mining	LEG		strong surge, then a slump	exploration
Lithium Australia	LIT		secondary downtrend	lithium
Lucapa Diamond	LOM		down	diamonds
Macphersons Res.	MRP		sideways through steep uptrend	silver
Medusa Mining	MML		testing downtrend	gold
MetalsX	MLX		breached uptrend	tin, nickel
Metro Mining	MMI		testing uptrend	bauxite
Mincor Resources	MCR		breached support line	nickel
Mineral Deposits	MDL		continuing up	mineral sands
Mustang Resources	MUS		correcting lower	diamonds, rubies
MZI Resources	MZI		still in downtrend	mineral sands
Northern Minerals	NTU		sideways	REE
Northern Star Res.	NST		rising	gold
NTM Gold	NTM		breached uptrend	gold
Oceana Gold	OGC		holding LT uptrend	gold
Oklo Resources	OKU		steeply higher	gold expl.

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Orecorp	ORR	on support line in a wedge	gold development
Orinoco Gold	OGX	at lows	gold development
Orocobre	ORE	rallying	lithium
Oz Minerals	OZL	down	copper
Paladin Energy	PDN	suspended	uranium
Pacific American Coal	PAK	breached support line	coal, graphene
Pantoro	PNR	new high	gold
Panoramic Res	PAN	breached uptrend	nickel
Paringa Resources	PNL	resting on support line	coal
Peel Mining	PEX	gentle uptrend	copper
Peninsula Energy	PEN	slump	uranium
Perseus Mining	PRU	testing downtrend	gold
Pilbara Minerals	PLS	heavy fall	lithium/tantalum
PNX Metals	PNX	down	gold, silver, zinc
Potash West	PWN	falling	potash
Red River Resources	RVR	ST down	zinc
Regis Resources	RRL	rallying	gold
Resolute Mining	RSG	holding long term support	gold
Reward Minerals	RWD	testing downtrend	potash
RIO	RIO	down	diversified
RTG Mining	RTG	down again	copper/gold
Rum Jungle	RUM	sideways	quartz
Salt Lake Potash	SO4	breached uptrend	potash
Saracen Minerals	SAR	still under downtrend	gold
St Barbara	SBM	breached resistance line	gold
Sandfire Resources	SFR	breached uptrend	copper
Santana Minerals	SMI	back in 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	down	gold
Stanmore Coal	SMR	breaching long term support	coal
Sundance Energy	SEA	down	oil/gas
Syrah Resources	SYR	falling heavily	graphite
Talga Resources	TLG	new high	graphene
Tanami Gold	TAM	short term down	gold
Tempo Australia	TPP	breached downtrend	mining services
Teranga Gold	TGZ	secondary downtrend	gold
Tiger Realm	TIG	down	coal
Tiger Resources	TGS	suspended	copper
TNG Resources	TNG	hugging support line	titanium, vanadium
Torian Resources	TNR	downtrend	gold expl'n
Toro Energy	TOE	down	uranium
Troy Resources	TRY	breaching steep downtrend	gold
Tyranna Resources	TYX	sideways	gold exploration
Vimy Resources	VMY	sideways	uranium
West African Resources	WAF	testing downtrend	gold
Westwits	WWI	testing downtrend	gold exploration/development
Western Areas	WSA	back to lows	nickel
White Rock	WRM	hitting resistance	silver
Whitehaven Coal	WHC	a spike and then a pullback	coal
WPG Resources	WPG	still down	gold

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Wolf Minerals	WLF		sideways at the lows	tungsten
Totals	21%	31	Uptrend	
	34%	50	Downtrend	
		148	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	21.6%
Copper	13	8.8%
Gold Exploration	14	9.5%
Coal	10	6.8%
Oil/Gas	9	6.1%
Potash/Phosphate	7	4.7%
Mineral Sands	7	4.7%
Graphite	6	4.1%
Silver	6	4.1%
Zinc	6	4.1%
Lithium	5	3.4%
Nickel	5	3.4%
Uranium	5	3.4%
Cobalt	4	2.7%
Tin	2	1.4%
Bauxite	3	2.0%
Diamonds	2	1.4%
Iron Ore	1	0.7%
Other	11	
Total	148	

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