

## Wicked correction offers up opportunities

### *Dissecting the moves last week*

Last week began as expected with the All Ords coming off 1.6% on Monday. It wasn't as bad as the Dow though, which had fallen by 4% the previous Friday night. The subsequent fall by the Dow on Monday night left our market in another state of uncertainty, delivering a 3.2% drop in the All Ords on Tuesday. Stability seemed to come back on Wednesday with a 0.8% lift in the All Ords, but a 4.6% fall in the Dow on Thursday guaranteed a down day in Australia on Friday. A 1.38% rally by the Dow on Friday leaves us with the possibility that our week will begin in the green. Still, we are not out of the woods yet.

Doing the charts for the first time in over a week, I was surprised how strong many of them were in the face of the selling. The overall sentiment was weaker, but in most cases the longer term trends held their ground. As of today, the charts are telling this has been a correction in response to the previously very strong market.

Corrections like these always hurt, but with the passage of time they invariably prove to be great buying points for the brave. There has been nothing to change the fundamental outlook, particularly with respect to battery input stocks. There has been no bad economic news, though the exuberance that was surfacing in the market has been hit with a bucket of cold water. The super bulls and the nervous players have both been taught a lesson, and the rational investor can now make less pressured decisions.

The commentators in the market did a reasonable job of calming the nerves of those with whom they communicated, so the fear didn't accelerate. As one US-based technical analyst summed it up, this was a "wicked correction". As such, it was not the beginning of the end, but the volatility will remain with us. Being absent from the office, and in Cape Town, the emotional anxiety of these falls was somewhat muted to me. I was more concerned with the meetings with various companies at the conferences.

### *Arlington Pre-INDABA and 121 roundup*

During four days of one-to-one meetings I caught up with about 50 companies across a broad range of commodities, followed by a site visit to Lucapa's new diamond mine in Lesotho. It is normal for people to enquire as to what were the most interesting companies that I saw, but in most cases there needs to be follow-up analysis. There was one standout for value in the junior gold space worth mentioning though - Golden Rim. See the comments below. The Lucapa site visit was most enlightening.

Some general impressions across the board were;

#### *1) Graphite companies were prominent*

I saw quite a few graphite companies. Much more work is required here, so I propose to complete a bottom up analysis that looks at the process routes being adopted for the various developments, and why the particular

configurations have been selected. That will lead to analysis of the orebodies themselves and the characteristics that require special attention, to achieve a marketable concentrate. That in turn will lead to an understanding of what the products will be best suited to and some insight into what pricing might be received in the market place, but actual marketing and pricing will likely remain somewhat opaque. Rather than shoot from the hip with strong opinions now, I defer any ranking of these companies until I have done the work. However, I feel obliged to say that a 121 with Canadian-listed **Next Source Materials** left me feeling more confident and positive than I was initially, when I saw them in a group presentation.

#### *2) Diamond companies looked interesting*

In Australia, when presented with diamond companies, they are invariably highly speculative and in the exploration camp. Investors are quite rightly cautious, especially given the debacles in the past like Cambridge Gulf. Nevertheless, you can find good companies if you are discerning enough.

Two diamond companies that seemed to have good merit were Diamcor Mining and Frontier Diamonds. Diamcor is a Canadian-listed company that is starting to treat alluvial material from the adjacent Venetia diamond mine, owned by De Beers. Frontier (FDX) IPO'd on the ASX last month after raising \$4.1m. That company has purchased two small diamond mines previously operated by Petra Diamonds, and it plans to institute a number of changes that it says will materially enhance the profitability of these mines. The ASX-listed diamond sector is growing.

#### *3) West Africa is making a comeback for gold companies*

West African gold stocks have largely been off the radar in this cycle, though a number of companies have been making sound progress. Burkina Faso is continuing to be productive with a procession of new mines confirming its viability as a desired destination. Cote d'Ivoire is more prominent this time around, more so than Ghana, and Mali is delivering good exploration results notwithstanding higher perceived geopolitical risk.

#### *4) The shifting sands of geopolitical risk*

Investors always have to be alert for African countries that move the goal posts on mining and exploration companies. Money will move from those countries that foolishly try to over-tax or burden operators in favour of those who encourage investment through better fiscal terms and improved bureaucratic procedures, with greater transparency of dealings.

Ghana, Tanzania and the DRC are recent examples of how good countries can shoot themselves in the foot with taxation and local ownership requirements. Companies operating in these regimes try and talk down the problems, but you would hardly expect them to do anything else.

Countries on the rebound include Angola and Zimbabwe. Both countries are rich in natural resources but they have suffered from kleptocratic governments in the recent past.

Changes in presidencies have led to statements of change in policies that will lead to an influx of new opportunities for the mining companies. We are told that there will be a change to the South African presidency any day now, with the chance that this will lead to a revival for small companies operating in that country.

### *Golden Rim offers excellent value at these prices*

I hadn't looked much at Golden Rim Resources (GMR) in recent years, though previously it had always come across as a responsible junior looking for gold orebodies in Burkina Faso. Management has always been sound, if somewhat less than flamboyant, achieving good levels of discovery success.

Of all the gold stocks I saw on the exploration front, Golden Rim looks a stand-out in the value stakes. Capitalised at only \$8m, it looks like it could move much higher once the results of the current round of drilling are available (and assuming they deliver to expectations).

A short while back GMR was distracted by the purchase of the Paguanta zinc project in Chile, paying US\$1.5m and spending \$8m. Even though this has a resource of 2.4 Mt at 5% Zn, 1.4% PB, 88 gpt Ag and 0.3 gpt Au (8% ZnEq), it hasn't been embraced by the market. Hence, GMR is going back to what it knows best - gold in Burkina Faso.

Within the 100%-owned Kouri gold project is the Banouassi prospect, which comprises 20 parallel gold zones in a strike length exceeding 3 km. It has a stated JORC Exploration Target of 500-610,000 oz at a grade of 1.8-2.2 gpt, to a depth of 70m. A 19,000m drilling program is in progress, with a view to facilitating a maiden mineral resource calculation by April 2018.

Previous drilling has tested 1.8 km of strike, but the current program will extend that strike to 3.5 km and test down to depths of 120-140m. Extrapolating the numbers leads to a figure of more than 1 Moz of gold.

Metallurgical test work has been very positive with 95.5% gold recovery over all ore types, with 36% recovery from gravity circuits. Oxidation levels extend to 20-30m depths, but some of the best recovery rates have actually been from the primary mineralisation. The company expects it will have a large tonnage, low grade open pit mine within a 2 km wide major shear zone.

Golden Rim looks great value at these prices with a re-rating to come from the release of the maiden resource in a couple of months time. The Chilean zinc project is probably worth as much as the current market capitalisation in a smart trade sale, meaning there is almost no value in the share price for the Burkina gold project. We should expect a capital raising in the not too distant future though, as cash levels were down to \$1.1m as at 31/12/17. This would provide investors with a good entry level,

### *Lucapa Diamond Co - seeing is believing*

Cape Town is a long way to go just for a conference, so many companies take the opportunity to arrange site visits for investors and analysts at the same time. Lucapa was one such company, taking brokers, analysts and investors from Australia and London to the recently acquired Mothae diamond mine in Lesotho. We know about Lucapa's Angolan alluvial diamond mine that has achieved sales of more than US\$100m since mining began, and the quest to find the source pipes, but not many people have really

understood the Mothae kimberlite project. That will change though.

### *Background to the Mothae diamond project*

Mothae was first discovered in 1961. It later went through a series of changes in ownership as various parties firmed up the resources, conducting studies and trial mining programs. In the period of 2008-2012, three phases of testing saw 600,000 tonnes treated for the recovery of 23,400 carats. The value of these was US\$17m, with the best stone achieving an amazing price of \$41,500 a carat. Mothae has a large proportion of the nitrogen-free Type II(a) diamonds, which are generally larger and higher value. The test work recovered 96 diamonds greater than 10 carats, with a number of fancy colour and pink stones.

For various corporate and financing reasons the previous owners never got around to proceeding with full scale production, and Lucara Diamonds eventually relinquished the licence. It may seem strange to let something of value expire, but Lucara had bigger fish to fry. So, the Lesotho Government received the licence back and put it up to tender. Lucapa was the successful tenderer, bidding US\$9m. Half of this has been paid with the balance due in mid 2018.

Mothae is the perfect foil for Angola, as it balances out the geopolitical risk. (Having said that, the new President in Angola is making moves to clean up corruption). Whereas Lulo in Angola is an alluvial mine, with less geological and resource certainty, Mothae is a hard rock kimberlite mine with statistical certainty and a minimum 13 year mine life.

While I was aware of the good fundamentals of the Mothae development plan, based on an Indicated and Inferred resource of 1.04 million carats and an IRR of 41%, I didn't realise how quickly the company was proceeding with the development.

### *Rapid development progress*

Earthworks are well underway and the pre-existing processing plant was recommissioned and turned on last Sunday (ahead of schedule), treating stockpiled materials from the southwest lobe of the pipe and residual material. Pleasingly, diamonds are being recovered already. This 70 tph plant will probably operate at 40-50 tph for the next 10 months, becoming secondary to the new 150 tph (1 Mtpa) plant being fabricated now and due to begin commissioning in the Q3 this year, for commercial production in Q4. One of the tasks of the smaller plant will be to process bulk samples from the neck, SE and north zones where there is potential for another eight million tonnes of feed.

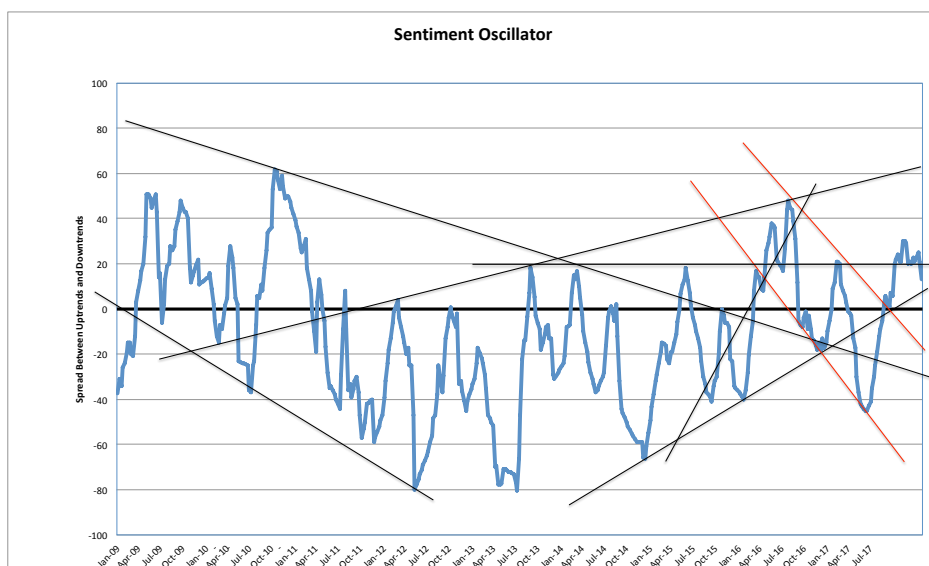
The Phase One development at Mothae, being the 1 Mtpa plant, is funded by the US\$15m Equigold loan. Phase Two will eventually double the throughput, 2-3 years later. We could go through a list of a number of reasons why the Company believes its numbers are conservatively stated, including the previous valuation methodology of the diamonds and the belief that some of the best stones previously mined may have been stolen, but the bottom line is that we are dealing with one of the highest value populations of diamonds, in a safe jurisdiction with good infrastructure and a highly experienced technical team. We are not expecting any disappointments.

### *Brooking discovery in Australia looking very promising*

Lucapa is now producing diamonds from two mines. Speculative appeal is just as strong as ever with the

Angolan pipes yet to be found. The recent drill results from the Brooking lamproite discovery at Ellendale, where the first drill hole recovered 112 micro-diamonds and seven macro-diamonds from 86 kgs of drill core, offers enormous upside potential once the wet season allows for more field work. The risk profile of Lucapa is falling quickly as fundamentals take over, while the blue sky appeal extends even further. It remains one of our largest investments.

*Disclosure: Interests associated with the author owns shares in Lucapa and have received fees for capital raising services. We continue to add to our position.*



Sentiment expected, a



Indicator: As number of

### 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	sharp fall but still in LT uptrend	
Metals and Mining	XMM	ST down, but holding long term uptrend	
Energy	XEJ	back to support	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	new low, then a bounce	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
Aguia Resources	AGR	new low	phosphate
Alicanto Minerals	AQI	fallen back to support line	gold exploration
Allegiance Coal	AHQ	new high	coal
Alliance Resources	AGS	spiked higher, then heavy correction	gold exploration
Altech Chemicals	ATC	holding on support line	industrial minerals - synthetic sapphire
Anova Metals	AWV	falling again	gold
Antipa Minerals	AZY	sideways	gold
Apollo Consolidated	AOP	breached uptrend line	gold exploration
Archer Exploration	AXE	breached uptrend	magnesite, graphite
Argent Minerals	ARD	still in downtrend	polymetallic
Artemis Resources	ARV	down	gold, nickel
Aspire Mining	AKM	off its low	coal

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Alta Zinc	AZI		new low	zinc
Aurelia Metals	AMI		new high	gold + base metals
AusTin	ANW		heavy pullback	tin, cobalt
Australian Bauxite	ABX		continuing in downtrend	bauxite
Australian Potash	APC		wedge forming	potash
Australian Mines	AUZ		short term down	cobalt/nickel
Australian Vanadium	AVL		breached steep uptrend	vanadium
Avanco Resources	AVB		downtrend	copper
AWE	AWE		new high	oil and gas
Azure Minerals	AZS		down	silver
BHP	BHP		correcting lower	diversified
Base Resources	BSE		weakening	mineral sands
Bathurst Resources	BRL		new high	coal
Battery Minerals	BAT		correcting lower	graphite
BBX Minerals	BBX		holding uptrend	gold
Beach Energy	BPT		new high	oil and gas
Beadell Resources	BDR		new low	gold
Berkeley Energia	BKY		uptrend breached	uranium
Berkut Minerals	BMT		spiked to new high, then heavy fall	cobalt
Blackham Resources	BLK		new low	gold
Blackstone Minerals	BSX		breached uptrend	gold, cobalt
Broken Hill Prospect.	BPL		testing uptrend	minerals sands, cobalt
Buru Energy	BRU		strongly higher	oil
Canyon Resources	CAY		breached uptrend	bauxite
Cardinal Resources	CDV		testing short term downtrend	gold exploration
Cassini Resources	CZI		rising	nickel/Cu expl.
Chalice Gold	CHN		on support line	gold
Cobalt Blue	COB		pullback	cobalt
Comet Resources	CRL		testing uptrend	graphite/graphene
Consolidated Zinc	CZL		continuing weakness	zinc
Corizon Mining	CZN		testing downtrend	cobalt
Crusader Resources	CAS		new low	gold/iron ore
Dacian Gold	DCN		heavy correction	gold exploration
Danakali	DNK		testing uptrend	potash
Doray Minerals	DRM		testing downtrend	gold
Draig Resources	DRG		testing uptrend	gold
Eden Innovations	EDE		testing downtrend	carbon nanotubes in concrete
Emerald Resource	EMR		sideways to higher	gold
Evolution Mining	EVN		new high	gold
Excelsior Gold	EXG		slump, testing uptrend	gold
Finders Resources	FND		stronger	copper
FAR	FAR		sideways	oil/gas
First Cobalt	FCC		down	cobalt
First Graphene	FGR		heavy correction to support line	graphite
Fortescue Metals	FMG		wedge forming	iron ore
Galaxy Resources	GXY		new downtrend	lithium
Galilee Energy	GLL		sideways	oil and gas, CBM
Gascoyne Resources	GCY		testing steeper downtrend	gold
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		new high	gold exploration

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Graphex Mining	GPX		breached uptrend	graphite
Heron Resources	HRR		testing downtrend	zinc
Highfield Resources	HFR		rallying	potash
Highlands Pacific	HIG		breached uptrend	copper, nickel
Hillgrove Resources	HGO		back to highs	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		breaching uptrend	mineral sands
Independence Group	IGO		rallied to new high	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		testing new uptrend	gas
Kasbah Resources	KAS		breaching secondary downtrend	tin
Kibaran Resources	KNL		new low	graphite
Kin Mining	KIN		breached ST uptrend	gold
Legend Mining	LEG		falling to support line	exploration
Lepidico	LPD		back to near highs	lithium
Lithium Australia	LIT		testing uptrend	lithium
Lucapa Diamond	LOM		rally on new discovery	diamonds
Macphersons Res.	MRP		downtrend being tested	silver
Marmota	MEU		falling to support line	gold exploration
MetalsX	MLX		new high	tin, nickel
Metro Mining	MMI		at highs	bauxite
Mincor Resources	MCR		breached uptrend	nickel
Mineral Deposits	MDL		uptrend steepening	mineral sands
Myanmar Minerals	MYL		testing downtrend	zinc
MZI Resources	MZI		testing downtrend	mineral sands
Northern Cobalt	N27		breached uptrend	cobalt
Northern Minerals	NTU		down again	REE
Northern Star Res.	NST		new high	gold
NTM Gold	NTM		surged out of wedge to confirm uptrend	gold
Oceana Gold	OGC		testing downtrend	gold
Oklo Resources	OKU		new high	gold expl.
OreCorp	ORR		strong rally	gold development
Orinoco Gold	OGX		steep uptrend	gold development
Orocobre	ORE			lithium
Oz Minerals	OZL		continuing in uptrend	copper
Pacific American Coal	PAK		testing new uptrend	coal, graphene
Pantoro	PNR		stronger	gold
Panoramic Res	PAN		on support line	nickel
Peel Mining	PEX		surge to new high, then pullback	copper
Peninsula Energy	PEN		testing recent uptrend	uranium
Perseus Mining	PRU		breached downtrend	gold
Pilbara Minerals	PLS		breached uptrend	lithium/tantalum
PNX Metals	PNX		ticked higher	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		testing uptrend	gold
St Barbara	SBM		strong	gold

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Sandfire Resources	SFR		rising	copper
Santana Minerals	SMI		new low	silver
Santos	STO		testing steep uptrend	oil/gas
Sheffield Resources	SFX		testing downtrend	mineral sands
Silver Lake Resources	SLR		breached 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		slump	oil/gas
Syrah Resources	SYR		short term down heavily	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		testing downtrend	gold expl'n
Triton Minerals	TON		uptrend being tested	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		breached steepest downtrend	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		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		breached downtrend on a spike	gold
Wolf Minerals	WLF		new low	tungsten
Totals	40%	57	Uptrend	
	27%	39	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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