

11 February 2017

On Friday's Close

Analyst : Warwick Grigor

Cobalt deals are starting to surface, and so is the analysis

As the market gave up more ground at the beginning of the week the gold price sailed higher, taking it almost back to the levels it was trading at prior to Trump being elected.

Politics continues to have the biggest impact on sentiment at the moment rather than economics. In the USA it is all about Trump in the red corner and the media in the blue corner. Whatever Trump is doing or saying, achieving or destroying, the media will tell us what it wants us to believe.

The political climate in Australia has become messier and less inspiring as the politicians adjust to Malcolm Turnbull's continual failure to deliver anything meaningful, though his performance in the House was a welcome show of tenacity

Cobalt deals coming through

As the cobalt theme gathers momentum and the cobalt price continues to rise, we have the setting for a perfect cobalt storm, much like we saw last year with lithium. Known nickel and copper deposits with cobalt credits are being dusted off and repositioned as cobalt plays. They will gain market interest but it is the more speculative end of the spectrum that will provide the fireworks. They will be the ones that boast higher grades from sampling but the challenge will be to convert these into mineable resources. The size of the deposits won't be as important as the grade, so it will be a legitimate strategy to be chasing smaller high grade pods of ore that can be quickly exploited rather than large low grade projects that will fail due to the capex hurdles.

An example of an exploration play to come to market is Berkut Minerals (BMT), which was a \$3.5m gold exploration IPO that first listed in August 2016. It has just announced a \$4m paper deal to acquire Kobald Mineral Holdings Pty Ltd (KMH). BMT had a market capitalisation of \$4.4m, prior to the cobalt deal and going into a trading halt to raise \$2m at 20¢ per share. When it came back on it quickly ran to 36¢, taking its market capitalisation to \$9m, before giving up some ground on Friday. BMT reported a cash balance of \$3m at the end of December. So, with the placement, it will have cash of almost \$5m as it commences due diligence on the cobalt acquisition. What are its chances of success?

BMT is a raw cobalt exploration play, in Europe. All three prospects have known cobalt occurrences from historical workings and prospecting. It is probable that selective sampling will result in some high grades that could give great promotional value, but sampling is very subjective. You don't sample to downgrade a project. You select your samples to highlight the potential. It is a big step to go from a selective sample to achieving a commercial drill intercept.

The location of these prospects in Europe adds additional levels of complexity. Social issues will come into play with environmental regulations and these often slow down projects. Operating costs will be high due to their location and promotion will be more expensive due to their remoteness from analysts and investors. In theory the geology is receptive, but there will be challenges.

Nevertheless, the market capitalisation of BMT doesn't really carry any premium at present. The deal is structured sensibly so the upfront entry is not expensive. It is result driven. It is a speculative seat at the cobalt party that will generate more interest as more information is made available.

Cobalt comparative table

We have attached a Comparative Table of ASX-listed cobalt companies this week. These only include companies that have JORC resources, and I'm sure we have left one or two out. We will keep working on this and add exploration companies in later versions. We will also provide accompanying analysis and comment. One of the most important figures will be the proportion of prospective revenue that will come from cobalt. So far we have only calculated this for Cobalt Blue, which is up to a figure of 61%. It is unlikely that the other companies will exceed this figure, but let's do the numbers to be sure. See the table below.

Santana Minerals - high grades boost expectations

Now that the gold price is recovering, and therefore silver investments are back on the menu, it's an appropriate time to make sense of the drilling undertaken by Santana Minerals (SMI) last year.

Recall that SMI is like a re-run of the highly successful Bolnisi Gold, which was taken over by Coeur d'Alene after the finding and development of a 3 Moz silver/gold orebody in Mexico. The same team is at it again in SMI, looking at the Cuitaboca Silver Project, which has many similarities to Bolnisi's Palmarejo project.

The drilling in 2016 focused on the Mojardina areas to the south of the licences, where the Phase 2 drilling program comprised 18 RC holes. The best of these was Hole 23, which returned 52m at 127 gpt Ag from the surface, including 23m at 253 gpt. The most important take away from that program was the location of these intercepts on changes in the dip, also referred to as jogs in the structure.

Rather than pattern drill on a grid hoping to hit high grade zones amongst others, past experience with this type of geology in Mexico has taught the geologists that if you want the better grade you have to identify the changes in the structure. These coincide with a steepening of the dip. Examination of surface geology and observation of that exposed in trenches can provide indications, though follow up drilling is needed to confirm the grade at depth. Having found high grades such as those in Hole 23, deeper drilling is needed to define the size of the bodies that generally have vertical dimensions of 200-300m before transitioning into base metal zones.

The starting objective for SMI was 80-100 Moz of silver at 80-100 gpt Ag. All of the results to date confirm that this is still a realistic target, though with the possibility of higher grade zones. It is just a matter of doing the work.

The Phase 3 drilling program, comprising 15 holes, is scheduled to commence in April following a period of earthworks and road construction that will commence shortly. SMI has sufficient funds in the bank to cover the program, estimated to be around \$1m.

The drill results from the Jesus Maria prospect, 2 km to the north of Mojardina, were somewhat less exciting. SMI drilled one fence of holes beneath trenches that showed 9m at 143 gpt and 12m at 110 gpt. The structures were hit lower down but with grades of 47 gpt and 113 gpt. The geologists need to give this more thought and figure out just where in the system the holes were placed. The style of geology is different to Mojardina with it being more of a brecciated sheeted vein system as opposed to more cohesive bodies. This may suggest grades closer to 100 gpt as the normal, except perhaps where there is intense fracturing that would allow more emplacement of

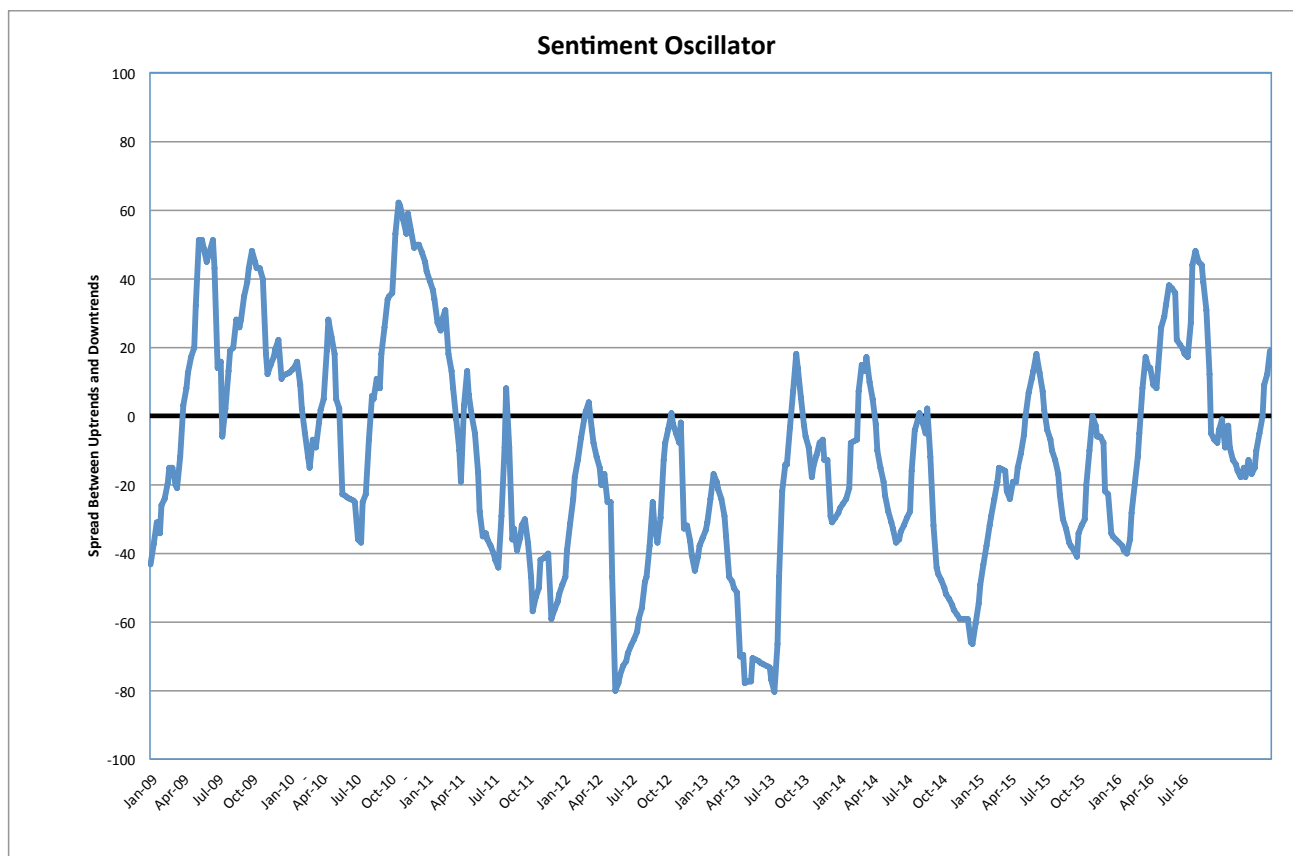
mineralisation. A couple more holes are needed to gather more information.

New silver zone identified

Just yesterday, SMI announced the discovery of a new silver zone in the northern end of the leases at La Lupita. First pass diamond saw channels have been cut here, returning best assays of 5m at 222 gpt, 1.5m at 514 gpt Ag and 2.9m at 281 gpt. Interestingly, these also had combined lead and zinc grades of 6-12%. Again, more work is required, but it shows how extensive the prospective area happens to be.

We have added Berkut Minerals and Cobalt Blue to the chart coverage this week.

The Sentiment Oscillator below shows we are strongly in the positive.



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Cobalt Comparisons.xlsx

ASX Listed COBALT COMPANIES - COMPARATIVE ANALYSIS

Companies with Stated Resources

Cobalt Price 17 US\$/lb
Sulphur Price 120 A\$/t

Company	Project	Equity	Location	Resources M/1/ Mt	Geology	Cobalt Grade % ppm	lb/t	Co Metal Mlbs	Value in-situ per tonne	Co Product - FeS ₂ Grade In-situ	Conc. Grades FeS ₂	Values in Conc FeS ₂	Cobalt Proportion Co
Pyrite Hosted Cobalt Projects with JORC resources													
Cobalt Blue ASX:COB	Thackaringa	up to 100%	NSW	35	pyrite	0.08%	841	1.85	66	\$31.45	15-20% S	\$108	61%
	<i>Development options include selling as a cobalt rich sulphide concentrate, or further processing to produce sulphuric acid at much higher capex. Interestingly, laterite nickel/cobalt plants need sulphuric acid, so they may be purchasers of COB's product.</i>												
Nickel/Cobalt Projects with JORC resources													
Ardea Res. ASX:ARL	Kalg. Ni (KNP)	100%	WA including	805	sapollite/limonite	0.05%	500	1.1	172	\$18.70	0.70%		
	<i>IPO that included a 1 for 10 distribution to Heron shareholders, with gold, base metals and nickel/cobalt projects</i>												
	<i>Vale spent \$34.5m to do a PFS on a 2.5 Mtpa HPAL plant costing \$2.1bn, in 2009. Heron calculated a 3.75 Mtpa HPAL would cost \$2.8bn in 2010.</i>												
	<i>A 2014 scoping study looked at a2. Mtpa, 20,000 tpa Ni/Co mine using atmospheric leaching, costing \$660m. Product would be a mixed hydride.</i>												
Augur Res. ASX:AUK	Homeville	100%	NSW	16	sapollite/limonite	0.045%	500	1.1	18	\$18.70	0.93%	\$108	59%
	<i>Doing scoping study on a 0.50 Mtpa counter-current atmospheric leach (CCAL) nickel plant to produce a mixed nickel-cobalt precipitate, at 59% Ni.</i>												
CleanTeq ASX:CLQ	Syerston	100%	NSW	109	laterite	0.10%	1,000	2.2	242	\$37.40	0.65%		
	<i>PFS study on a 2.5 Mtpa HPAL project with \$906m capex. Feed grades of 0.8% Ni, 0.14% Co, giving production of 85,000 tpa nickel sulphate and 15,343 tpa cobalt sulphate.</i>												
	<i>Feed grades of 0.88% Ni and 0.17% Co over first 20 years. Scandium by-product.</i>												
Cougar Metals ASX:CGM	Pyke Hill	100%	WA	14.7	laterite Ni	0.06%	700	1.5	19	\$25.50	0.90%		
	<i>Cougar is chasing graphite in Magagascar and lithium in Brazil. The laterite nickel project is a remnant asset and unlikely to generate much market interest.</i>												
GME Res. ASX:GME	NIWest	100%	WA	109	laterite Ni	0.06%	1,000	2.2	145	\$37.40	0.93%		
	<i>Scoping study in 2013, looked at a 1.5 Mtpa combined heap leach/direct solvent extraction & EW plant to produce 14,000 tpa Ni cathode and carbonte.</i>												
	<i>540 tpa cobalt carbonate. Capex \$460m. Recovery rates were 72% for Ni, 40% for Co. W:O 6.9:1</i>												
Barra ASX:BRA	Mt Thirsty	50%	WA	32	oxidised limonite and manganese oxide	0.12%	1,200	2.6	88	\$44.20	0.55%		
Conico ASX:CNJ	Mt Thirsty	50%	WA		asbolane								
	<i>RMSTEM process (Resin in Pulp) - Low temperature (<50°C) agitated acid leach process has potential to recover 80% of the Co and 20% of the Ni over 4-5 hours</i>												
	<i>A thickener flowsheet has a leach solution recovering 86-87% of the metals, then precipitation as an hydroxide. A Resin-in-Pulp flowsheet recovers 99% into solution, then ion exchange gives a solution of cobalt and nickel sulphate which is precipitated as a Co-Ni hydroxide.</i>												
	<i>IMO Process - can recover mixed product of 10% Co and 44% Ni, and a MnCO₃ product. More work is required.</i>												
	<i>80-90% of the cobalt is in a the manganese mineral asbolane, which is < 1% of the feed</i>												
Independence ASX:IGO	Nova-Bollinger	100%	WA	14	Ni sulphide	0.08%	800	1.76	24	\$29.92	2.30%		
	<i>Commissioning a \$443m underground nickel mine and processing facility. Cobalt will be a by-product.</i>												
Platina Res. ASX:PGM	Owendale	100%	NSW including	26 8.6	laterite Co zone	0.06%	600	1.3	35	\$22.10	0.12%		
	<i>This is a platinum, scandium, nickel and cobalt project. Undertaking studies to determine process route. A 2015 Scoping Study focused more on scandium, looking at 30 tpa of scandium in a concentrate, capex of \$74m for a capacity of 50,000 tpa. Cobalt needs to be considered in a new study.</i>												

Cobalt Comparisons.xlsx

Copper/Cobalt Projects with JORC resources						Co Product - Cu		Conc. Grades Co	Values in Cont
						In-situ	Au Grade		
Aeon Metals ASX:AML	Waiford Vardy	NW Qld	73 6.6	0.08% 0.16%	813 1,600	1.8 3.5	132	0.40% 1.25%	
Hammer Metals ASX:HMX	Millenium	NW Qld	5.9	Cu sulphide 0.11%	1,100	2.4	14.3	0.32%	0.11 g
	<i>Waiford is a Cu/Pb/Zn project with a CuEq. grade of 1.43%, and a higher grade cobalt zone named Vardy. A Prel. Economic Assessment is being undertaken. Hydrometallurgical Research Labs. demonstrated potential for a high grade cobalt concentrate, as Co is found in cobaltite and not as cobaltiferous pyrite.</i>								
	<i>Licence acquired from Elementos Ltd in 2016.</i>								
Havilah ASX:HAV	Mutooroo	Sth Aust	12.5	Cu sulphide 0.13%	1,300	2.87	38	\$48.79	1.50% 212 g
	<i>Test work has shown the sulphide ore can be roasted to produce sulphuric acid and Cu and Co can be leached from the calcine residue</i>								
Mithril Res. ASX:IMTH	Basil	NT	27	Cu sulphide 0.05%	504	1.2	29	\$20.40	0.57%
	<i>Within a larger resource of 90 Mt at 0.28% Cu, 0.03% Co, with a 1% Cu cut-off.</i>								
Nzuri Copper ASX:INZC	Kalongwe	DRC	4	Cu sulphide 0.72%	7,200	15.8	94	\$268.60	2.55%
	<i>Scoping study done on a 1 Mtpa mine recovering 25,000 tpa Cu and 2,900 tpa Co. Target 2019 production. HSM & HL SX-EW methods. 10-20% Cu product with 2% Co. Recoveries in range of 53-65% Cu, 36-45% Co.</i>								

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Sentiment Indicator: The sentiment edged higher again. There were 43% (41%) of the charts in uptrend and 22% (23%) 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	short term downtrend breached	
Metals and Mining	XMM	another new high	
Energy	XEJ	continues to improve	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	strongly higher, then heavy pullback	gold
Aeon Metals	AML	on support line	copper + cobalt
Alacer Gold	AQG	breached resistance line	gold – production
Alkane Resources	ALK	nudging resistance line	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	down again	phosphate
Alicanto Minerals	AQI	spiked higher	gold exploration
Alltech Chemicals	ATC	testing short term uptrend	industrial minerals
Anova Metals	AWV	rising gently	gold
Antipa Minerals	AZY	back in downtrend	gold
Apollo Consolidated	AOP	crunched on preliminary metallurgical tests	gold exploration
Archer Exploration	AXE	testing a secondary downtrend	magnesite, graphite
Argent Minerals	ARD	new uptrend	polymetallic
Aspire Mining	AKM	continuing down	coal
Atrum Coal	ATU	lower	coal
Aurelia Metals	AMI	long term uptrend	gold + base metals
Auroch Minerals	AOU	improving	exploration
Aus Tin	ANW	down	tin, cobalt
Australian Bauxite	ABX	breakdown confirmed	bauxite
Australian Potash	APC	continuing higher	potash
Australian Vanadium	AVL	rising gently	vanadium
Avanco Resources	AVB	rising	copper
AWE	AWE	testing downtrend	oil and gas
Azure Minerals	AZS	crunch down on Kennecott withdrawal	silver
BHP	BHP	breaching uptrend	diversified
Base Resources	BSE	rising	mineral sands
Bathurst Resources	BRL	correcting lower	coal
Battery Minerals	BAT	short term down	graphite
Beach Energy	BPT	breached uptrend	oil and gas
Beadell Resources	BDR	wedge forming	gold
Berkeley Resources	BKY	at highs again	uranium
Berkut Minerals	BMT	vertical rise	cobalt
Blackham Resources	BLK	breached ST uptrend	gold
Bligh Resources	BGH	gentle uptrend	gold
Broken Hill Prospect.	BPL	breaching downtrend	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	new high	wave energy
Cassini Resources	CZI	breached downtrend	nickel/Cu expl.
Chalice Gold	CHN	holding uptrend	gold
Cobalt Blue	COB	settling down after IPO	cobalt
Crusader Resources	CAS	downtrend	gold/iron ore
Dacian Gold	DCN	breaching steep ST uptrend	gold exploration
Danakali	DNK	strongly higher	potash
Doray Minerals	DRM	down	gold
Duketon Mining	DKM	testing downtrend	nickel

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Eden Innovations	EDE		higher	carbon nanotubes in concrete
Energia Minerals	EMX		new high	zinc
Equator Resources	EQU		strong rise	cobalt/nickel
Evolution Mining	EVN		testing final resistance	gold
Excelsior Gold	EXG		coming off again	gold
Finders Resources	FND		breached downtrend	copper
First Australian	FAR		sideways to lower	oil/gas
First Graphite	FGR		breached downtrend	graphite
Fortescue Metals	FMG		hugging uptrend	iron ore
Galaxy Resources	GXY		rising again	lithium
Galilee Energy	GLL		breached uptrend	oil and gas, CBM
Gascoyne Resources	GCY		breached downtrend	gold
Geopacific Res. Resources	GPR		breached downtrend	copper/gold exp.
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		downtrend	gold exploration
Graphex Mining	GPX		rising again	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		testing uptrend	potash
Highlands Pacific	HIG		edging higher	copper, nickel
Hillgrove Resources	HGO		breached downtrend	copper
Hot Chilli	HCH		testing downtrend	copper
Iluka Resources	ILU		breached steep uptrend	mineral sands
Image Resources	IMA		heavy fall	mineral sands
Independence	IGO		ST down	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached downtrend	gas
Kibaran Resources	KNL		breached support line	graphite
Kin Mining	KIN		breached downtrend	gold
Legend Mining	LEG		strong surge, then a slump	exploration
Lithium Australia	LIT		downtrend breached	lithium
Lucapa Diamond	LOM		fallen to long term support line	diamonds
Macphersons Res.	MRP		down	silver
Medusa Mining	MML		still in long term downtrend	gold
MetalsX	MLX		breached downtrend	tin, nickel
Metro Mining	MMI		rising	bauxite
Mincor Resources	MCR		off its lows	nickel
Mineral Deposits	MDL		rising again	mineral sands
Mustang Resources	MUS		new high	diamonds, rubies
MZI Resources	MZI		still in downtrend	mineral sands
Northern Minerals	NTU		breaching uptrend	REE
Northern Star Res.	NST		at final resistance line	gold
NTM Gold	NTM		breached uptrend	gold
Oceana Gold	OGC		pierced uptrend, then bounced	gold
Oklo Resources	OKU		breached downtrend	gold expl.
OreCorp	ORR		breached downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		testing uptrend	lithium
Oz Minerals	OZL		another new high	copper
Paladin Energy	PDN		surge out of downtrend	uranium
Pacific American Coal	PAK		breached support line	coal, graphene
Pantoro	PNR		new high	gold
Panoramic Res	PAN		rising wedge	nickel
Paringa Resources	PNL		new high	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		another strong rise	uranium
Perseus Mining	PRU		correcting down	gold
Pilbara Minerals	PLS		breached downtrend	lithium/tantalum
PNX Metals	PNX		strong surge	gold, silver, zinc

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Potash West	PWN		falling	potash
Red River Resources	RVR		still in uptrend	zinc
Regis Resources	RRL		breaching resistance line	gold
Resolute Mining	RSG		new short term uptrend	gold
Reward Minerals	RWD		testing downtrend	potash
RIO	RIO		strongly higher	diversified
RTG Mining	RTG		testing downtrend	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		testing downtrend	gold
St Barbara	SBM		at final resistance line	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		down	silver
Santos	STO		rising	oil/gas
Sheffield Resources	SFX		rising again	mineral sands
Silver Lake Resources	SLR		rising	gold
Silver Mines	SVL		testing downtrend	silver
Sino Gas & Energy	SEH		rising	gas
Southern Gold	SAU		pullback	gold
Stanmore Coal	SMR		breached steep uptrend and turning down	coal
Sundance Energy	SEA		new uptrend confirmed	oil/gas
Syrah Resources	SYR		breaching downtrend	graphite
Talga Resources	TLG		rising	graphene
Tanami Gold	TAM		breached uptrend	gold
Tempo Australia	TPP		breached downtrend	mining services
Teranga Gold	TGZ		surge through downtrend	gold
Tiger Realm	TIG		surging higher	coal
Tiger Resources	TGS		uptrend off the lows	copper
TNG Resources	TNG		spiked higher	titanium, vanadium
Torian Resources	TNR		down	gold expl'n
Toro Energy	TOE		continuing to rise	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		breaching downtrend	gold exploration
Vimy Resources	VMY		downtrend breached	uranium
West African Resources	WAF		strong breach of downtrend	gold
Westwits	WWI		ST downtrend but rally on Friday	gold exploration/development
Western Areas	WSA		still falling	nickel
White Rock	WRM		breached downtrend	silver
Whitehaven Coal	WHC		testing uptrend	coal
WPG Resources	WPG		testing downtrend	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	43%	63	Uptrend	
	22%	32	Downtrend	
		145	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.

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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	33	22.8%	
Copper	13	9.0%	
Gold Exploration	13	9.0%	
Coal	10	6.9%	
Oil/Gas	9	6.2%	
Potash/Phosphate	7	4.8%	
Mineral Sands	7	4.8%	
Graphite	6	4.1%	
Silver	6	4.1%	
Zinc	5	3.4%	
Lithium	5	3.4%	
Nickel	5	3.4%	
Uranium	5	3.4%	
Cobalt	2	1.4%	
Tin	2	1.4%	
Bauxite	3	2.1%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	11		
Total	145		

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