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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

11 July 2020 *On Friday's Close* Analyst : Warwick Grigor

Theta Gold Mines is another promising South African gold play

Goal posts are always moving in the junior space

If there is one thing that you have to remind yourself in dealing with these equity markets, it is that everything is always changing, particularly when you are talking gold. A project and a company that might have been uninteresting and destined to fail in a previous cycle can look attractive with plenty of upside in the next.

The gold price itself is the most important variable both in terms of project economics but also in terms of investor enthusiasm. What was marginal in the past might now be very profitable today. You have to take into account who the management and shareholders were previously and see if there have been changes. If there have been changes, has this been an upgrade or just a change of people?

As an analyst, it is too easy to be dismissive just because you have seen a project and pronounced judgement before, though there is always a tendency to be sceptical if you think it is just a case of different dog, same leg action. Still, you need to let the companies present their merits (or sales pitches).

The investment climate is so much more positive for gold companies than it was several years ago. Investors are now prepared to put up money for projects in locations that they previously avoided. In many cases funding was the missing ingredient that kept so many projects sidelined.

South Africa gaining favour in this gold climate

One company that I looked at quite a few years ago was Stonewall Mining, an ASX-listed company with gold mining projects in South Africa. At the time it didn't appeal me, so I didm't follow it closely. Since then there have been changes in management and shareholders and the name has changed to Theta Gold Mines (TGM). Theta commenced trading on the ASX late in 2018, under the current name, after undergoing a 10 into 1 consolidation of share capital. Theta still has the same gold projects in South Africa, but it is getting greater recognition in the market with a market capitalisation around $130m.

Historically the South African gold fields have been the source of enormous quantities of gold, but in recent decades many of the mines have closed down, coinciding with the changing domestic political scene. Black empowerment, whereby the BEE groups get a 26% interest in projects, was not well received by international investors. As mentioned in a recent Weekly, the bureaucracy has been a distinct negative. Yet, there comes a time when the economics become sufficiently attractive that you can afford to put up with these detractions.

Theta's vision - 160,000 oz p.a of gold, four mines

In summary, Theta aims to build a gold production platform to recover 160,000 oz pa from the Pilgrims Rest Project, 370 km east of Johannesburg. This is based primarily around shallow, open-cut or adit-entry underground mining sources. Theta Gold Mines has access to over 43 historical mines and prospect areas that can be accessed and explored, with over 6.7 Moz of historical production recorded.

Starting with oxide open pits

There is still plenty of gold left in the field; 6 Moz in 44.8 Mt at 4.18 gpt (equity share is 74%). Since the current team moved into the chair in late 2018, work has focused on the oxides near surface ore that had been previously overlooked. The open pittable Mineral Resource is now 13.08 Mt at 3.12 gpt, for 1.3 Moz of gold.

While Theta has to spend in the order of US$31m to build a new processing plant, it does have the benefit of a fully permitted site that still has a number of buildings, administration offices and ponds in good order. Construction of the new facility would take 9-10 months to complete, giving capacity to treat 500-600,000 tpa of oxide ore (though the mill could process 1.2 mtpa).

Open pit mining will start on the MR83 licence which has an ore reserve of 2.3 Mt at 2.76 gpt, for 205,000 oz. It will then progress to the MR341 licence that hosts about 500,000 oz, but these need to be upgraded to reserve status. AISC are estimated at US$855/oz in the first instance on gold production of about 40,000 oz p.a.

Underground mines provide extended mine life

Underground mining will provide the long term future for Theta. Studies using shrink stoping mining methods have included parameters such as minimum mining widths of 90 cm, 15% pillar losses, dilution of 3-10% and a mine call factor of 90%. All these lead to recovery of 80-86% of the geological grade.

The Beta mine currently has a resource of 1.1 Moz at a grade of 6 gpt. The scoping study examined a 40,000 oz p.a. scale of production. The Reitfontein mine, 40 km from the plant, has 780,000 oz at 8.5 gpt. This could also supply 40,000 oz p.a.

The Bottom Line - in a golden sweet spot

It is an undisputed fact that investors have had an aversion to South African gold mining projects in recent years, but this is not really logical given the amount of money that companies have spent in other, higher risk African countries. South Africa has the best infrastructure in Africa and its geological credibility is unparalleled. What we need to see is companies like Theta and West Wits developing their orebodies and generating cash flow and profits that correspond with their spreadsheets. Success from these companies could lead to a revival of the gold sector in South Africa and a re-rating of all companies involved.

At the moment Theta is in a very good position. The gold price is making its resources look more valuable as each month passes. Funding the development is going to be much easier now than at any time in the last five years. The short lead time to production, from simple open pit mines, is another positive. We just need to make sure that there are no bureaucratic speed bumps that could slow things down.

All this money will lead to inflation, right?

If there was ever an event that was going to led to inflation, it was the flood of $3.6 trillion of money from QE, but it didn't happen. The strength in the gold price in recent months is partially attributed to expectations of inflation coming from the massive Fed (and other central banks) stimulus. Will we get inflation this time? The biggest distinguishing feature now is that money is going to consumers, not banks.

I have extracted the following analysis from the IC Economics Monitor June 2020, released by Chantelle Schieven at Murenbeeld & Co (with some of my own modifications) for those more economics driven minds to digest.

Creation of money comes from Fed purchases, then waterfalls into the monetary base, then money supply, then to the velocity of money. We then tie it all together with the "equation of exchange" linking money supply, velocity of money, economic output, and the price level.

When the Fed makes a purchase or loan it credits the counter party dealer (bank) with 'electronic' money, which the bank can either leave at the Fed as a reserve or can take out of the Fed and use to make loans or purchase other assets. The created money is a liability on the Fed's balance sheet.

Reserves and currency in circulation are the components of the monetary base, also referred to as high-powered money. It is the 'base' of the monetary system that banks can lend from.

Generally the Federal Reserve requires each bank to hold a percentage of deposits as reserves (this amount was 10% before the Fed removed the requirement in March 2020), the amount of reserves held at the Fed beyond the required amount is known as excess reserves. Excess reserves do not reach consumers and therefore do not circulate in the economy. Ergo in the past decade quantitative easing that led to excess reserves made banks more liquid but had no opportunity to become consumer inflation.

The QE bump of 2008 in the monetary base was not reflected in M1. The reasoning is twofold: 1.) the great financial crisis of 2008-09 was credit loss driven and banks tightened lending standards, little money was loaned out, and 2.) the Fed started paying interest on excess reserves, which further increased banks' incentive to leave its reserves at the Fed instead of lending them out to consumers (making consumer loans could lead to losses, but loaning to the Fed cannot).

M2 (broad money) which is M1, plus savings deposits, and retail money funds, behaved as M1 did...not growing in line with the monetary base. The monetary base more than doubled in 2008 but M1 and M2 increased by only 18% and 10%, respectively.

The last component to show is the velocity of money – which is defined as "the rate at which money is exchanged in the economy", another way to say it is that it is the rate at which cash is spent by its holders.The following chart shows velocity of money declining since 1997, after an increase in the early 1990s, but it has declined below the longer-term rate of 1.8 since 2008.

We put these factors together in "*the equation of exchange*", to assess the relationship between money and price level, where M = money supply, V = velocity of money, Y = economic output and P = the price level.

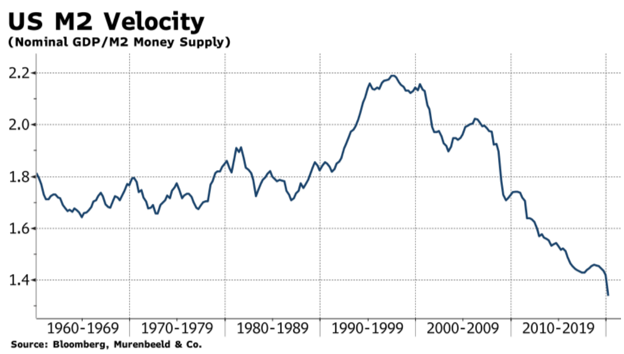
So, M*V=P*Y

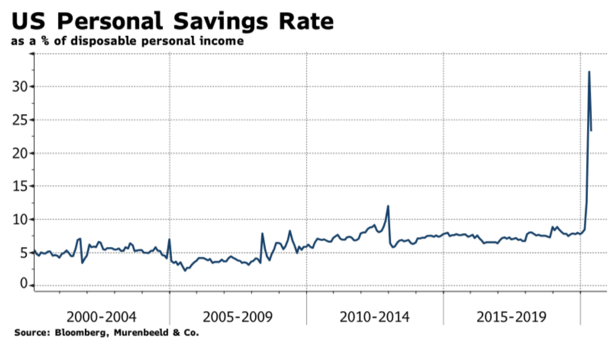
When money supply and/or velocity rises, price level and/or economic output must rise, so rising money supply leads to rising prices. Tying this back to to the monetary base (MB), M=m*MB, where m= the money multiplier.

In the GFC inflation was not created because QE stimulus went to fix the balance sheets of banks. This time around the money is going to consumers, which makes demand pull inflation more likely.

The Fed has added $2.9 trillion to the system since March, most of which has found its way to individuals. An increase in spending is going to lead to an increase in the velocity of money. Hence, inflation is more likely this time. The economists are not saying hyperinflation, but certainly more than we are seeing now - maybe 4-5% p.a.

The subsequent issue will be whether this level of inflation is enough to ignite expectations of even greater inflation, setting off a new cycle that feeds on itself.





Bye bye Kasbah

Kasbah Resources (KAS) has announced an intention to delist from the the ASX in a move that may put an end to the pain being experienced by its shareholders. Well, maybe not, but at least they will no longer feel like slitting their wrists every time they look at the share price … because there won't be one to look up?

Back in 2010 the share price was $3.46 (adjusted for consolidation), but this week it was down to 1¢, with a market capitalisation of $1.3m. It still has 75% of the Achmmach Tin Project in Morocco, along with joint venture partners Toyota Tsusho Corp (20%) and Nittetsu Mining (5%). The Company describes it as "*…the most advanced greenfield tin project in the world located in a safe, secure and mining friendly jurisdiction*." The ore reserve is 7 Mt at 0.82% Sn. So how come it is in this position?

The ASX release on Tuesday said "*It is the Board's view that the price at which Kasbah's shares have traded on ASX over an extended period of time does not fairly value its underlying assets*." Also, "*The significant disparity between the market capitalisation and a fair valuation of its assets is hindering the Company's ability to attract investments on reasonable terms for working capital as well as to advance the development of the Achmmach Tin Project*."

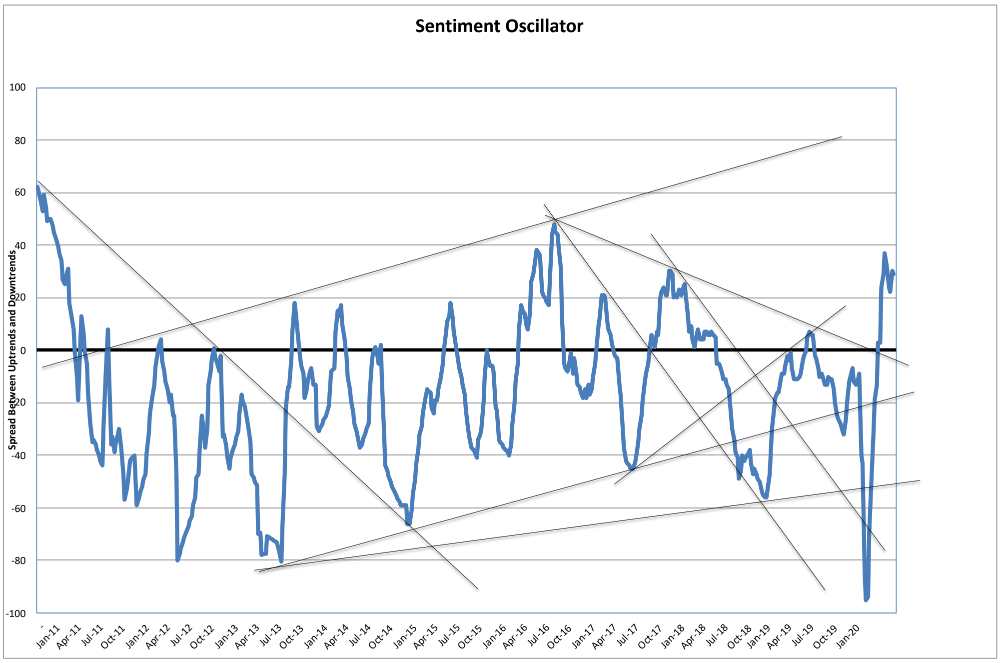
One has to ask why, if the project has the investment merit that has been promoted to us over the last 10 years, it has fallen into such a moribund state. It is not as if it hasn't got good institutional support. KAS has significant institutional/ private equity firms as key shareholders, being Pala Investments (34.24%) and Lion Selection Group (10.3%), but that hasn't been enough.

We have previously questioned the merit of having such shareholders in junior mining stocks. Yes, they can provide valuable funding, but with what consequences? There are a number of examples over the years where such shareholders have failed to deliver successful outcomes and the smaller shareholders have suffered.

It may be that delisting is the smartest thing to do now provided the company can raise further funds to advance the project, and perhaps re-list at a later stage in a rise from the ashes. There is the risk though, for smaller shareholders, that they will be trampled by the big guys, especially if Pala decides to call in the circa $8m convertible note due by the end of the year. Time will tell.

We have added Blue Star Helium (BNL), Renergen (RLT) and Theta Gold Mines to the chart coverage, and deleted Australia Mines, Cassini Resources, FAR, PNX Metals and Real Energy.

Disclosure: Nil.



Sentiment Oscillator: Sentiment was steady over the week with 51% (51%) of the charts in uptrend and 22% (21%) 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. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	Code		Trend Comment	
All Ordinaries	XAO		surged high out of consolidating pattern	
Metals and Mining	XMM		upside breakout	
Energy	XEJ		broken uptrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA	A4N		recapturing uptrend	HPA
Adriatic Resources	ADT		upside breakout	zinc
Aeon Metals	AML		testing downtrend	copper + cobalt
Alkane Resources	ALK		new high	gold, zirconia
Alicanto Minerals	AQI		rallying	gold exploration
Allegiance Coal	AHQ		at lows	coal
Alliance Resources	AGS		testing uptrend	gold exploration
American Rare Earths (was BPL)	ARR		on support line	rare earths
Apollo Consolidated	AOP		new high	gold exploration
Arafura Resources	ARU		down again	rare earths
Aurelia Metals	AMI		surge out of downtrend	gold + base metals
Australian Potash	APC		breached downtrend	potash
Australian Vanadium	AVL		new low	vanadium
Auteco Minerals	AUT		at highs	gold exploration
BHP	BHP		correcting lower	diversified, iron ore
Base Resources	BSE		hitting resistance	mineral sands
BBX Minerals	BBX		surge higher	gold exploration
Beach Energy	BPT		heading lower	oil and gas
Beacon Mining	BCN		still beneath resistance line	gold production
Bellevue Gold	BGL		new high again	gold exploration
Blackstone Minerals	BSX		rising	nickel
Blue Star Helium	BNL		rising	gas, helium
Breaker Resources	BRB		hitting resistance	gold exploration
Buru Energy	BRU		heading lower	oil
Buxton Resources	BUX		turned down at resistance line	nickel exploration
Capricorn Metals	CMM		rising again	gold
Cardinal Resources	CDV		surge on takeover bid	gold exploration
Central Petroleum	CTP		shallower downtrend	oil/gas
Chalice Gold	CHN		rallying	gold exploration
Chase Mining	CML		down heavily	nickel/copper/PGE
Chesser Resources	CHZ		testing uptrend	gold exploration
Dacian Gold	DCN		collapse on recapitalisation	gold
Danakali	DNK		rising	potash
Davenport Resources	DAV		back to lows	potash
De Grey	DEG		pullback	gold

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E2 Metals	E2M		testing uptrend	gold exploration
Ecograf (was Kibaran)	EGR		sideways	graphite
Element 25	E25		at highs	manganese
Emerald Resource	EMR		new high	gold
Evolution Mining	EVN		at highs	gold
First Graphene	FGR		still in long term downtrend	graphene
Fortescue Metals	FMG		rallying	iron ore
Galaxy Resources	GXY		breaching support	lithium
Galena Mining	G1A		hitting secondary resistance	lead
Galilee Energy	GLL		upside breakout	oil and gas, CBM
Gold Road	GOR		correcting lower	gold
Graphex Mining	GPX		suspended since 25th March	graphite
Heron Resources	HRR		breaching downtrend	zinc
Highfield Resources	HFR		falling back to support line	potash
Hillgrove Resources	HGO		still in downtrend	copper
Iluka Resources	ILU		correcting lower	mineral sands
Image Resources	IMA		slump out of short term uptrend	mineral sands
Independence Group	IGO		Uptrend breached	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths (Oro Verde)	IXR		breached downtrend	rare earths
Jervois Mining	JVR		looking weaker	nickel/cobalt
Jindalee Resources	JRL		still under resistance line	lithium
Kin Mining	KIN		rallying	gold
Kingston Resources	KSN		new high	gold
Kingwest Resources	KWR		down	gold
Legend Mining	LEG		downtrend	nickel exploration
Lepidico	LPD		testing downtrend	lithium
Lindian Resources	LIN		breached downtrend	bauxite
Lithium Australia	LIT		still in long term downtrend	lithium
Lotus Resources	LOT		rallying	uranium
Lucapa Diamond	LOM		at lows	diamonds
Lynas Corp.	LYC		breaching uptrend	rare earths
Mako Gold	MKG		steeply higher	gold exploration
Manhattan Corp	MHC		spiked higher on positive drill results	gold exploration
Marmota	MEU		strong recovery	gold exploration
MetalsX	MLX		breached downtrend	tin, nickel
Metro Mining	MMI		rising	bauxite
Mincor Resources	MCR		surge to new high	gold
Musgrave Minerals	MGV		strongly higher	gold exploration
Myanmar Minerals	MYL		breached downtrend	zinc
Nelson Resources	NES		breached uptrend	gold exploration
Neometals	NMT		continuing down	lithium
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		rallying	gold

NTM Gold	NTM		rising again	gold exploration
Oceana Gold	OGC		new high	gold
Oklo Resources	OKU		breached uptrend	gold expl.
Orecorp	ORR		rising	gold development
Orocobre	ORE		heavy correction	lithium
Oz Minerals	OZL		on trend line	copper
Pacific American Holdings	PAK		new low	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		new high	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		back to lows	rare earths
Peel Mining	PEX		uptrend	copper
Peninsula Energy	PEN		down again	uranium
Pure Minerals	PM1		testing downtrend	nickel/cobalt/HPA
Pensana Metals	PM8		rising again	rare earths
Perseus Mining	PRU		drifting within uptrend	gold
Pilbara Minerals	PLS		at apex of flag	lithium
Polarex	PXX		uptrend	polymetallic exploration
Ramelius Resources	RMS		on trend line	gold production
Red5	RED		crunched down	gold
Red River Resources	RVR		broken through resistance line	zinc
Regis Resources	RRL		uptrend again	gold
Renergen	RLT		rising	gas, helium
Resolution Minerals	RML		rising again	gold
Resolute Mining	RSG		rising	gold
RIO	RIO		sideways	diversified, iron ore
Rumble Resources	RTR		rising	Gold exploration
Salt Lake Potash	SO4		rising	potash
Saracen Minerals	SAR		on trend line	gold
St Barbara	SBM		on trend line	gold
Sandfire Resources	SFR		on trend line	copper
Santos	STO		breached uptrend	oil/gas
Saturn Metals	STN		recapturing uptrend	gold exploration
Sheffield Resources	SFX		correcting within uptrend	mineral sands
Sky Metals	SKY		heavy correction	gold exploration
St George Mining	SGQ		at recent highs	nickel
Silex Systems	SLX		pullback	uranium enrichment technology
Silver Mines	SVL		on trend line	silver
Sipa Resources	SRI		rising	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		down again	coal
Strandline Resources	STA		new high	mineral sands
Syrah Resources	SYR		breached uptrend	graphite
Talga Resources	TLG		rising	graphite
Technology Metals	TMT		rising	vanadium

Tesoro Resources	TSO		breaching uptrend	gold exploration
Theta Gold Mines	TGM		steep rise	gold
Titan Minerals	TTM		bouncing off support line	gold
Vango Mining	VAN		testing downtrend	gold
Venturex	VXR		down again	zinc
Vimy Resources	VMY		heavy fall after placement	uranium
West African Resources	WAF		off its high	gold
Westgold Resources	WGX		breaching downtrend	gold
West Wits Mining	WWI		rising	gold
Western Areas	WSA		testing downtrend	nickel
Whitebark Energy	WBE		sideways	oil and gas
Whitehaven Coal	WHC		secondary downtrend	coal
Yandal Resources	YRL		rising	gold exploration
Zinc Mines of Ireland	ZMI		testing downtrend	zinc
Totals	51%	70	Uptrend	
	22%	30	Downtrend	
		137	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	**31**	**22.6%**	
Gold Exploration	**22**	**16.1%**	
Zinc/Lead	**10**	**7.3%**	
Nickel	**8**	**5.8%**	
Oil/Gas	**8**	**5.8%**	

Lithium	**8**	**5.8%**	
Coal	**5**	**3.6%**	
Mineral Sands	**5**	**3.6%**	
Rare Earths	**7**	**5.1%**	
Potash/Phosphate	**5**	**3.6%**	
Copper	**5**	**3.6%**	
Graphite	**4**	**2.9%**	
Iron Ore/Manganese	**4**	**2.9%**	
Uranium	**3**	**2.2%**	
Bauxite	**3**	**2.2%**	
Silver	**3**	**2.2%**	
Cobalt	**1**	**0.7%**	
Vanadium	**1**	**0.7%**	
Tin	**1**	**0.7%**	
Diamonds	**1**	**0.7%**	
Other	**2**		
Total	**137**		

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