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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

11June 2022 *Chart comments as at Friday's close* Analyst : Warwick Grigor

QT replaces QE in financial markets

Continued selling dominates the markets with scant attention being paid to fundamentals at present. The future it too uncertain for there to be a reversal of recent bearish trends with intermittent rallies being the only respite. While interest rate sensitive industrial stocks will adjust lower as interest rate rise, the negative sentiment will permeate all sectors for the foreseeable future, with the exception of conventional energy stocks. Get used to it.

QT is the future

Quantitative Easing (QE) has long been the tool by which economic and market liquidity have been bolstered whenever there have been ructions in the market. The US Fed bought $3.3 trillion in Treasuries and $1.3 trillion in mortgage-backed securities over the past decade and the equity markets have been major beneficiaries of this strategy. Economists initially warned of the inflationary effects of such huge injections of liquidity, but those warnings were gradually silenced as the expected wave of inflation never materialised … until now.

We actually did have inflation but it appeared in asset prices such as equities and house prices rather than consumer goods, but no-one complained about these rises. We all felt richer. We were comfortable with the swelling pool of investable and speculative funds, even to the extent that commentators and advisors were ignoring time proven fundamentals in their stock selections. "*It is different this time*" was a common response when this departure was questioned. That is a typical response from a younger generation with limited history in markets.

You can forget QE for the foreseeable future. The inflation has come back hard with energy prices being the structural cause. Yes, the Ukraine War has been the accelerant but the roots of inflation in the energy sector started laying down its roots with the underinvestment in hydrocarbon energy sources. The aggression with which governments and many fund managers have shunned conventional energy projects in favour of renewables has left the world vulnerable to the sort of energy shortages we are seeing now, even in Australia. That can only lead to higher prices not just in energy, but everything that uses energy i.e. everything, period. There is talk of businesses failing with recessionary consequences, but they won't fail if they boost prices to compensate for higher electricity costs. So, the inflationary expectations are flowing through to consumer expectations. Once entrenched, they are very hard to reverse.

The more conservative commentators have been warning about the consequences of switching to alternative energy too rapidly, beyond our physical ability to do so, while the Greens have been seeking to accelerate the push even faster. The Greens have had the ascendancy. It looks like we can cut carbon emissions more according their desires, but it will be in the form of a recession, or even depression, if the current trends are continued. That is a fear in the markets that is not yet universal, but it is getting more traction.

So, alternative energy comments aside, that brings us back to what can be done about inflation today. The obvious tactic is to bring back Quantitive Tightening (QT) to soak up some of that excessive liquidity in markets. That will take interest rates higher and asset prices lower, be it equities, housing or whatever else funds have previously flowed into. The speed at which QT is pursued will determine whether we are in for a short burst of hard pain, or an extended period of slow tightening.

There is still some debate as to whether QT or raising the official interest rate is the better tactic to take the heat out of the economy, though they both will result in higher interest rates either directly or by default.

Should we be abandoning equity markets?

While it is important to understand what is happening in the big picture, we should also appreciate that the equities markets have trouble sticking to any one theme for more than a few days. Its harmony with long term reality will wax and wane and this dynamic will provide opportunity to trade the fluctuations, even if it is just buying on aggressive selling and trading out on the rallies. There will be the occasion company specific news flow that will overpower general market psychology, and these will offer great opportunities to which punters will swarm like moths to a lamp. Lindian's and Lion One's recent performance are cases in point. Equity markets won't stop just because the trends are going down, but they will be more challenging

Besra Gold looks to be mis-priced in the market

Besra Gold (ASX:BEZ) is another junior resource company with shares in two jurisdictions. In Australia, there are 171.8 million quoted CDIs (chess depositary interests). There are a further 122.3 million shares currently escrowed. This gives a total number of shares/CDIs of 294.1 million, giving a recent market capital of A$20m. Some of those escrowed shares are with Canadians, as a legacy of a previous but now discontinued TSX listing.

The Australian listing came about with an IPO in September 2021, that raised $10m at 20¢ a share. Unfortunately it was an inauspicious start for Besra with the shares trending downwards from the first day of trading to hit a low of 3.8¢ in May 2022. There was a good rally to 10¢ over the subsequent two weeks, but the price has come off again with the rest of the market, in June. The obvious question is "*Has it been treated too harshly by the market*?"

Some background and history

Besra's primary asset is the Bau goldfield that is located 30-40 km from Kuching, the capital of Sarawak, on the island of Borneo. This location provides a number of advantages with respect to logistics and infrastructure, including access to deep water ports and roads.

When I visited the project about 20 years ago, there was a nice, high-grade open pit gold mine named Tai Parit, owned and operated by Malaysians (the Ling family), that mined 1.2 Moz at 7 gpt, to a depth of 80m. Menzies Gold was an ASX-listed company that was looking for repeats of the Tai Parit orebody on neighbouring leases. Alas, it failed to do so, but it did discover extensive gold mineralisation of a different style. The trouble at the time was that the ore was refractory and problematic. Menzies moved on to other projects but some of the people involved maintained an interest, and they can be found within Bezra today. Title to the Bau interests passed through a number of hands before ending up with Olympus Pacific Minerals, with that company changing its name to Besra Gold in November 2012. Today, Besra's 97% interest in Bau is held through its direct and indirect holdings in North Borneo Gold Sdn Bhd.

The Bau Project covers an 8 x 15 km corridor that has been explored by numerous parties over three decades. It has been tested by a huge number of holes amounting to 250,000m of RC drilling. In 2013, a NI 43-101 compliant Feasibility Study was released on the Jugan-Bukit-Young portion of the project. The gold price was much lower then and the study assumed a a price of US$1,300/oz. Gold production of 100-150,000 oz p.a. was anticipated with a centralised treatment plant drawing from a number of locations. However, the gold price is different today and the development options are being reconsidered.

Bau has 3.3 Moz (JORC 2021) (97% BEZ)

The IPO prospectus disclosed a JORC Resource of 21.3 Mt 1.6 gpt for 1.12 Moz of gold in the Measured and Indicated categories. Another 2.1 Moz are in the Inferred category at 1.3 gpt, bringing the total resource to 3.3 Moz. This gold is located across a number of locations within the licences. A detailed description can be found in the Independent Technical Assessment in the IPO prospectus.

In addition, Besra quoted a sizeable Exploration Target of 4.9 to 9.3 Moz. The current business strategy involves drilling to upgrade the Measured and Indicated categories as well as looking to improve the grade through a better understanding of the controls for the higher grade mineralisation.

Carlin-style gold mineralisation

While there are several known styles of mineralisation at Bau, they can be generally likened to the Carlin Trend style in Nevada, USA, where mineralisation is commonly hosted in calcareous sediments. Similarities in mineralisation style include silicic-argillic-carbonate hydrothermal alteration and fine grained arsenopyrite-pyrite gold ore.

This mineralisation is refractory so there will need to be more metallurgical work undertaken, with there being a range of different assemblages across a number of orebodies. It is likely that a 100-150 tpd pilot plant will be established in order to get the final process circuit correct, with there being expectations that a concentrate grading 30-40 gpt gold can be achieved.

Productive drill programs since listing

The first round of assays received since listing returned intercepts in the first four holes that included 26m at 2.23 gpt, 58m at 2.67 gpt (both from surface) and 19m at 2.21 gpt from 9m down hole. Widths were substantially thicker and grades better than historical drill results at Jugan Hill. A second batch of assays received a month later provided similarly strong intercepts. Confidence is growing that the Company may be in a position to provide material improvements in the resource statement when it is next calculated.

Finances will need a top up

Even though Besra raised $10m in the IPO, an aggressive expenditure program and legacy payments to secure control of the assets have whittled that sum down to approximately $2m. This means it can't go many months without raising more money, and this could be a good entry point.

The Bottom Line - shares are selling very cheaply

A 3.3 Moz resource is nothing to be sneezed at, so why is the market capitalisation only $20m? Could the refractory nature of the orebodies have blinded investors as to the upside potential? Maybe, but therein could lie the opportunity. There are plenty of profitable, refractory orebodies in the world. Sure, you need to be more careful in the design of the process route, but the intended pilot plant is a smart move aimed to get this aspect right. Maybe it is just a combination of insufficient promotion to get the message across, combined with the weaker stock market generally and end of financial year tax selling.

Besra Gold does seem to offer a very cheap entry price at these levels. We can talk about the trend being your friend in the market and going with the flow, but one of the safest ways to make money is to buy when everyone else is looking the other way. This may be a good case in point, but you may need to be more patient that the average trader to take advantage of this overlooked gold company. Upgrading and optimising the Bau Goldfield will require a sensible amount of time. However, it would not surprise me if there was a bid by Asian investors that might shorten the time frame.

Lion One's amazing intercept; 75.9m at 20.8 gpt

There is always one fish swimming against the tide. On the same day that interest rates rose by 0.5% and the All Ords came down by 1.4%, Lion One Metals' (LLO) share price surged around 50% on a gold intercept that will probably be one of the best you will ever see; 20.86 gpt over 75.9m. It was described as the discovery of a major new feeder structure located at depth beneath the current resource fully within the permit boundaries of the Tuvatu mining lease, Fiji.

In discussing the significance of this intercept, the Company surmised that Tuvatu is heading down the path of a Porgera or Vatukoula-style dimension, with both of these being high grade, multi-million ounce underground gold mines. Quinton Hennigh, an highly regarded American exploration geologist, commented that these type of systems can be expected to go to depths of up to 2 km. This latest intercept commenced at a down hole depth of 443m.

We previously covered Lion One on 22/1/22, concluding that "*Tuvatu promises to be a long-life, high-grade gold mine. Cash costs are expected to be very low at US$500-600/oz. The estimated pre-tax cash flow at a lower US$1,400/oz gold price has the shares selling on EBITDA* *multiples of less than 1.0x. That makes them very cheap, and even cheaper at US$1,800/oz. I haven't been able to identify a precise timetable as to when gold production will commence, but taking an educated guess I would expect that event to occur in 2023. Mine development work should be happening in 2022."* We still hold this view, which has been strengthened by this new discovery of the feeder zone.

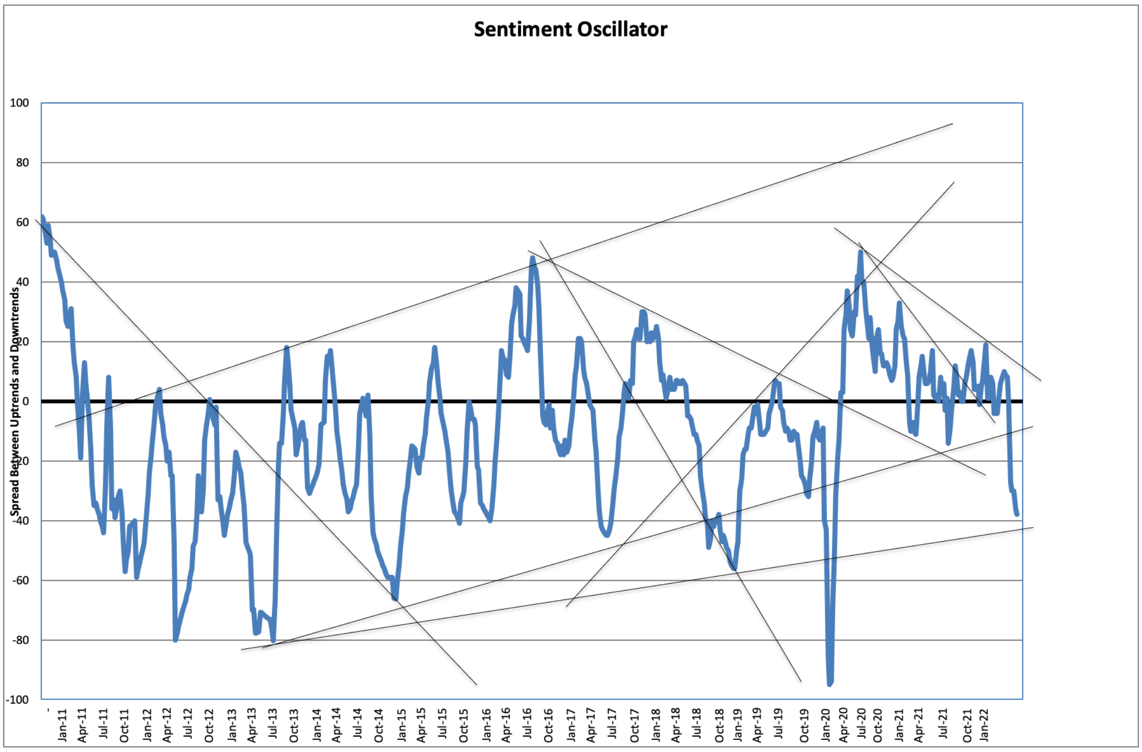
Recent Management Discussion - 31 March, 2022

As a dual listed company (TSX and ASX), LLO is required to release a Management Discussion & Analysis each quarter. This is more of an explanatory narrative than what ASX-listed companies release. Noteworthy points from the one released on 31 March include;

- a 10 year, renewable mining lease has been granted by the Fiji Government along with a 21 year surface lease for processing operations
- Tuvatu neighbours the Vatukoula deposit, which has produced more than 7 Moz over a life of more than 50 years. There is potential for 10-20 Moz at Tuvatu
- Much of the activity at present is drilling, but the Company's objective is to work towards a near-term production start. Being an underground mine, there will be a period of pre-production development while the underground infrastructure is established and ore stopes are prepared. An exact timeline was not provided.
- Engineering and procurement for the 300 tpd treatment plant has commenced
- Development of second underground access portal is underway
- Majority of required mining equipment has been shipped and delivered to mine site

The Bottom Line - a great company in the making

With 156 million shares on issue the market capitalisation is touching $300m after this week's share price rise of almost 50%. We don't have enough information to provide earnings estimates yet, but we instinctively feel that the share price will move much higher along with information flow. The primary listing is in Canada with only 10 million CDIs down here on the ASX. That means trading is very thin and if you want volume, you have to go to Canada. However, it would make sense for the Company to do an equity raise Downunder to elevate the level of interest.



Sentiment Oscillator: Sentiment fell further over the week. We are getting towards the end of the downward move according to the oscillator, so we might not be far away from a reversal. However, there are no guarantees. There were 18% (19%) of the charts in uptrend and 56% (55%) 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		back to recent lows	
Metals and Mining	XMM		breached recent ST uptrend	
Energy	XEJ		at highs	
Information Technology	XIJ		attempting a basing	

Stocks	Code		Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N		bounced off support line	HPA
Adriatic Resources	ADT		shallower downtrend	zinc, polymetallic
Alkane Resources	ALK		breached downtrend	gold
Alicanto Minerals	AQI		down	base metals, silver, gold
Altech Chemical	ATC		down	HPA, anodes
Anteotech	ADO		back to lows	silicon anodes, biotech
Alto Metals	AME		sideways	gold exploration
American Rare Earths (was BPL)	ARR		off its highs	rare earths
Antilles Gold	AAU		still down	gold
Arafura Resources	ARU		new high	rare earths
Ardea Resources	ARL		heavy retracement	nickel
Aurelia Metals	AMI		breached support line	gold + base metals
Australian Potash	APC		risen to hit downtrend line	potash
Australian Rare Earths	AR3		down	rare earths
Auteco Minerals	AUT		new low	gold exploration
Arizona Lithium	AZL		breached support line	lithium
Azure Minerals	AZS		collapse	nickel exploration
BHP	BHP		still in a downtrend	diversified, iron ore
Beach Energy	BPT		new uptrend confirmed	oil and gas
Bellevue Gold	BGL		slump	gold exploration
Benz Mining	BNZ		back to previous lows	gold
Blue Star Helium	BNL		down	gas, helium
BMG Resources	BMG		shallower downtrend	gold exploration
Boab Metals	BML		back to downtrend	silver/lead
Breaker Resources	BRB		on support line	gold exploration
Buru Energy	BRU		falling	oil
Calidus Resources	CAI		breached support line	gold
Capricorn Metals	CMM		slump	gold
Caravel Minerals	CVV		new low	copper
Castile Resources	CST		still sideways	gold/copper/cobalt
Celsius Resources	CLA		falling	copper
Chalice Mining	CHN		down	nickel, copper, PGMs, gold exploration
Chesser Resources	CHZ		rallied off lows	gold exploration
Cobalt Blue	COB		v	cobalt

Cyprium Metals	CYM	surge out of downtrend	copper
Danakali	DNK	testing downtrend	potash
De Grey	DEG	falling	gold
E2 Metals	E2M	down	gold exploration
Ecograf	EGR	down	graphite
Element 25	E25	down	manganese
Emerald Resources	EMR	recovered to highs	gold
Empire Energy	EEG	down	gas
Euro Manganese	EMN	down	manganese
Evolution Mining	EVN	slump	gold
Firefinch	FFX	slump out of uptrend	gold
First Graphene	FGR	testing downtrend	graphene
Fortescue Metals	FMG	testing downtrend	iron ore
FYI Resources	FYI	down	HPA
Galena Mining	G1A	sideways	lead
Galilee Energy	GLL	hanging on uptrend line	oil and gas, CBM
Genesis Minerals	GMD	collapse back to downtrend	gold
Genmin	GEN	sideways	iron ore
Gold Road	GOR	down	gold
Great Boulder Resources	GBR	down	gold exploration
Hastings Technology Metals	HAS	on support line	rare earths
Hazer Group	HZR	heavy slump	hydrogen
Heavy Minerals	HVY	back to support line	garnet
Highfield Resources	HFR	breached support line	potash
Hillgrove Resources	HGO	long term uptrend	copper
Iluka Resources	ILU	breaching downtrend	mineral sands
Image Resources	IMA	new uptrend breached	mineral sands
ioneer (was Global Geoscience)	INR	down	lithium
Ionic Rare Earths	IXR	breached uptrend	rare earths
Jervois Mining	JVR	on support line	nickel/cobalt
Kingston Resources	KSN	down	gold
Krakatoa Resources	KTA	short term down	rare earths
Kingwest Resources	KWR	drifting lower	gold
Legend Mining	LEG	sideways	nickel exploration
Lepidico	LPD	breached uptrend	lithium
Lindian Resources	LIN	surged higher	bauxite
Lion One Metals	LLO	spiked higher	gold
Los Cerros	LCL	new low	gold exploration
Lotus Resources	LOT	testing long term uptrend	uranium
Lucapa Diamond	LOM	new low	diamonds
Lynas Corp.	LYC	through downtrend line	rare earths
Magnetic Resources	MAU	shallow downtrend	gold exploration
Mako Gold	MKG	sideways	gold exploration
Marmota	MEU	surge higher on REE news	gold exploration

Marvel Gold	MVL		breached uptrend	gold exploration
Matador Mining	MZZ		new low	gold exploration
Mayur Resources	MRL		slump to new low	renewables, cement
Meeka Gold	MEK		breached downtrend	gold
Megado Gold	MEG		back to trend line	rare earths, gold exploration
Meteoric Resources	MEI		sideways through downtrend line	gold exploration
MetalsX	MLX		heavy fall	tin, nickel
Metro Mining	MMI		holding support line	bauxite
Mincor Resources	MCR		testing downtrend	gold/nickel
Mithril Resources	MTH		down	gold/silver
Musgrave Minerals	MGV		testing downtrend	gold exploration
Neometals	NMT		down	lithium
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		breached downtrend	gold
Nova Minerals	NVA		down again	gold exploration
Oceana Gold	OGC		breached uptrend	gold
Oklo Resources	OKU		spiked through downtrend	gold expl.
Orecorp	ORR		down	gold development
Oz Minerals	OZL		rallying within a downtrend	copper
Pacific American	PAK		back to lows	coking coal
Pantoro	PNR		down	gold
Panoramic Res	PAN		testing uptrend	nickel
Peak Minerals	PUA		down	copper exploration
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		sideways	copper
Peninsula Energy	PEN		breached uptrend	uranium
Poseidon Nickel	POS		drifting lower	nickel
Perseus Mining	PRU		near highs	gold
Provaris Energy	PV1		down - was Global Energy Ventures	hydrogen
PVW Resources	PVW		down heavily	rare earths
QMines	QML		downtrend	copper
Queensland Pacific Metals	QPM		testing downtrend	nickel/cobalt/HPA
Red River Resources	RVR		still down	zinc
Regis Resources	RRL		down	gold
Renergen	RLT		testing downtrend	gas, helium
RIO	RIO		down	diversified, iron ore
Rumble Resources	RTR		good rally	gold exploration
S2 Resources	S2R		testing downtrend	gold exploration
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		uptrend	oil/gas
Saturn Metals	STN		sideways	gold exploration
Silex Systems	SLX		holding support	uranium enrichment technology
Silver Mines	SVL		down	silver

South Harz Potash	SHP		still holding long term uptrend	potash
Stanmore Coal	SMR		pullback	coal
Strandline Resources	STA		pullback	mineral sands
Sunstone Metals	STM		downtrend	exploration
Talga Resources	TLG		down	graphite
Technology Metals	TMT		down	vanadium
Tesoro Resources	TSO		down again	gold exploration
Theta Gold Mines	TGM		down	gold
Thor Mining	THR		down	gold exploration
Tietto Minerals	TIE		down	gold
Titan Minerals	TTM		down	gold
Turaco Gold	TCG		downtrend	gold exploration
Vanadium Resources	VR8		testing uptrend	vanadium
West African Resources	WAF		holding uptrend	gold
Westgold Resources	WGX		down	gold
West Wits Mining	WWI		heavy fall	gold
Whitehaven Coal	WHC		secondary uptrend	coal
Wiluna Mining	WMC		heavy fall	gold
Yandal Resources	YRL		down	gold exploration
Zenith Minerals	ZNC		off its highs	gold exploration
Zinc Mines of Ireland	ZMI		sideways	zinc
Totals	18%	26	Uptrend	
	56%	80	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 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**	**21.7%**	
Gold Exploration	**23**	**16.1%**	
Nickel	**11**	**7.7%**	
Copper	**11**	**7.7%**	
Rare Earths	**11**	**7.7%**	
Oil/Gas	**7**	**4.9%**	
Iron Ore/Manganese	**6**	**4.2%**	
Lithium	**4**	**2.8%**	
Potash/Phosphate	**5**	**3.5%**	
Graphite/graphene	**4**	**2.8%**	
Uranium	**3**	**2.1%**	
Zinc/Lead	**4**	**2.8%**	
Mineral Sands	**3**	**2.1%**	
Silver	**3**	**2.1%**	
Coal	**3**	**2.1%**	
Bauxite	**2**	**1.4%**	
Cobalt	**1**	**0.7%**	
Tin	**1**	**0.7%**	
Diamonds	**1**	**0.7%**	
Other	**9**		
Total	**143**		

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