

Diggers & Dealers Debrief, and a little bit of alchemy

The official and the unofficial program

This year's Diggers & Dealers gathering was somewhat more measured than last year. Back in 2016, we were at the zenith of a mighty six month surge in mining stocks as every man and his dog scrambled to re-weight back into the sector. Everyone was positive, but as is usually the case, they were positive at the peak. The last 12 months have been much tougher. The consensus amongst my contacts in Kalgoorlie was that this was a working man's Diggers - much more measured - and not one dominated by bullish sentiment.

Those delegates who sit in the auditorium and listen to the formal presentations receive polished performances that have been vetted by compliance, with the standard approach now being to have the disclosure and disclaimer statement up front. Just as ASIC proscribes, everyone gets the same information at the same time so that no-one gets advantageous information flow. Companies seek to give the best impression they can in a short speaking slot. Responses of the audience are influenced more by showmanship than substance in markets that seem to pay less attention to detail and analysis than they once did.

The really valuable information in any such conference comes from sources that do not take the podium. They are snippets of information or opinions of trusted players that prompt investigation and research. These are the early leads that prove most interesting and if correct, may evolve into the next new story in formal presentations a year later. Diggers also provides an opportunity to dig deeper and find the real story on some of those highly promoted stocks where the promotion may have outpaced delivery.

One of the most frequently asked questions at Diggers & Dealers is "What did you like?" or "Did you see anything new?" There is always something new and interesting and there is always a better appreciation of geology to boost confidence in my convictions but the amount of information to be digested means that many conclusions are not instantaneous. Sometimes, when the story is really hot, the last thing you want to do is to tell everyone else ... prior to getting set yourself. Good contacts and good analysis shouldn't be shared freely like a socialised asset, irrespective of the desire of the regulators.

Two site visits - Exterra and Macphersons

Exterra Resources (EXC) is a prospective gold producer that is merging with Anova Metals to make a company capitalised at around \$78m with combined gold resources of 1.2 Moz and gold production from two projects, Big Springs in Nevada and the Second Fortune Mine NE of Kalgoorlie, in WA. Both projects will have ore treated by third party mills, enabling minimum capital costs in the early years. Big Springs and Anova have been covered in research notes previously, available on the FEC website.

The Second Fortune gold mine has had a number of owners since the initial discovery in the 1970s. An open pit

first took out 5,000 oz to a depth of 20m, at a grade of 13.4 gpt. In 1986, Golden Fortune extended the pit to a depth of 60m and developed two underground levels. Thereafter, Haoma picked it up in 1989, but basically just sat on it until 2010, when the company went into administration. It was a key asset in the \$5m IPO of Exterra, in 2011.

Recent years have seen the orebody tested by 30 diamond drill holes to a vertical depth of 300m, over a strike length of 300-400m. The geological grade of the narrow quartz vein orebody is around 20 gpt, but dilution and mining parameters see this come down to 5.8 gpt as a ROM head grade.

A feasibility study has been completed on a 65,000 oz reserve and a mining inventory of 73,000 oz, coming from a resource base of 130,000 oz. A 23 month life is expected to recover the 73,000 oz at an AISC of A\$1,176/oz with a 13 month payback. Capex is estimated at \$9.4m plus working capital of \$3m.

EXC could truck its ore to a number of plants. Carosue, owned by Saracen, is 100 km away. Sunrise Dam, owned by Anglo, is 60 km away. However, it is more likely to be trucking the ore to the Lakewood tolling facility near Kalgoorlie, which would cost \$82 pt in trucking fees. If a deal was cut with the first two plants, we could see better economics.

Optimisation of the project has seen the installation of an optical ore sorter that will mitigate the transport costs by doubling the grade to the mill, to around 12 gpt, lifting the effective yield from the underground mine from 222 oz per vertical metre to around 450 opvm and possibly more.

Development of the portal and decline is expected to commence in November 2017, with steady state ore production being achieved five months later. Finance will come from the cash balance of the merged companies, supplemented by borrowings of around \$6m. At the end of 23 months the expected net cash return is about \$20m, compared to the market capitalisation of \$13m today.

Putting everything in perspective, perhaps the most important observation is that the Exterra team knows what it is talking about. They have good prior production experience. They come across as builders rather than promoters. They have correctly diluted the 20 gpt by taking into account minimum mining widths. While the total ounces in the mine plan is a modest figure, the orebody is open at depth. It could end up producing twice as much gold and there are a number of other ore positions on the leases and good exploration upside.

The hardest statistic to swallow is the trucking cost, but at this point the resource is not large enough to justify a dedicated treatment facility. Maybe this is something to consider later when some of the other ore positions are firmed up.

Exterra on its own is too small to attract much attention. However, the merger with Anova results in a company with

better critical mass and earnings from two gold projects by the middle of next year. The share price will undoubtedly improve as each of these projects start to deliver.

Macphersons Resources (MRP) is a company that has reported some very good intercepts in recent months as it continues to drill its Boorara gold project, 10 km east of Kalgoorlie. The most impressive hole was 163m at 1.94 gpt, back in February, but that attracted some scepticism at the time with some observers saying that it was drilled down dip, labelling it a "directors' special". While there may have been some elements of down dip drilling that made the length of the intercept longer than a preferred perpendicular hole, you must take into account the complicated geometry of the system. It wasn't designed to be deceptive.

There are three main sets of quartz veins in the dolerite host rock. If you don't hit all of these in the one hole you get an under-representation of the grade. Inspection of the walls of the test pit, taken to a depth of 20m, clearly shows the orientation of the veins.

When MRP gets around to recalculating the resource it will be much bigger than the 6 Mt at 1.2 gpt, for 232,000 oz. The grade is likely to be much better as well if you extrapolate the head grade from the trail pit, which was 1.73 gpt. The net result could be a 2-3x increase in the contained gold.

BBX Minerals - finding gold where there isn't any

One company that I heard about for the first time was BBX Minerals (BBX), a company capitalised at \$70m. It was mentioned in the context of something unusual regarding assay techniques and grades, so I had a closer look.

BBX IPO'd in August 2005, having raised \$6m, underwritten by Martin Place Securities. At that time it was all about the barter business, not mining. The founding chairman was Richard Poole. The Managing Director was Michael Touma, the CEO was Carolin Touma and the Administration Manager was Mireille Touma. So, it seemed like a family business even though it had 50 full-time employees. The Toumas held 60% of the company after the IPO. It was suspended in October 2005 (for a day), for failure to lodge its accounts on time (not a good start). Strangely, the same thing happened in 2008, and on a number of occasions in subsequent years.

In March 2010, it looks like Richard Poole moved into the box seat, disclosing substantial shareholdings totalling 55.96% of the company, as Michael Touma departed. A rights issue at 1¢ a share raised \$450,000 (underwritten by Poole's company, Arthur Phillip Pty Ltd, with funds earmarked to identify new projects).

In April 2011, BBX announced it had an option with Crusader Resources to earn up to 75% of the Ouro Belo tin-indium project. Due diligence was successfully completed in October 2011, about the same time it entered into an option deal over 51% of the Chapada gold project in Brazil, a property that had previously given Mundo Minerals untold grief. Another gold deal was picked up in Peru in December 2011, justifying a name change from BBX Holdings to BBX Minerals.

Over the next few years there seems to have been a regular turnover of directors and management. Richard Poole sold down his holding. Drake Investments, a New

York LLC company, became a substantial shareholder, and the company continued to focus on Brazilian projects. It goes without saying that it held these out as being of "world class" quality. All of that is par-for-the-course when talking about junior exploration companies.

Where it starts to get interesting is in mid November 2015, when it was suspended for five weeks pending exploration results from six holes drilled on two properties. The first hole was a dud, recovering < 0.1 gpt from a 55m intercept where previously visible gold had been found. Holes two, three and four were also duds. However, they did report an intercept of "yellow metallic mineral" which they identified as gold, over a 3m interval in JED-004. JED-006 recorded a similar material in a 99m interval from 200m down hole. From this point on, the story becomes rather unusual.

Without confusing you with all of the samples and tests that were undertaken, the Company concluded that this yellow stuff was indeed gold, but it did not report as gold under conventional analytical techniques. Drake quickly lifted its holding to 31.6%.

BBX then started to release good gold (and PGM) values from amalgamation tests whereby sample pulps were bulked and amalgamated with mercury to recover a metallic button that assayed 85.4% gold and 14.6% PGM. Fire assays over the same intervals returned only trace elements.

At the time the shares jumped from less than 1¢ to hit 12¢. The market was obviously excited but they soon fell back to less than 2¢. They started to move again in late 2016, and reached 36¢ in June. What had happened?

BBX claimed to have developed a new assay technique for the Juma style of mineralisation, where gold is said to be in an ionic state. This starts with a pre-treatment step involving intense oxidation followed by fire assay. The method has given good gold assays where conventional fire assay doesn't register anything. So, it seems that the intense oxidation is the key, being achieved with acid and water.

The story gets better though. In September 2016, using its special technique (oxi8B), BBX announced a 49m intercept at 24.7 gpt from the JED-006 that was previously reported back in November 2015, as having no gold. It also said that it had recovered 10.6 gpt from a cyanide bulk leach method.

Drake Investments increased its equity to 38% and launched an on-market takeover bid in September 2016, at 4.5¢ a share. It reached a 49.7% holding.

In February 2017, BBX said that it had gone back to the sixth hole, JED-006, and obtained fire assays of 37 gpt from a 49m composite sample. JED-001 returned 42 gpt from a 55m composite and JED-004 returned 33 gpt over 13.6m. This fire assay method used a flux mix termed "T95" in conjunction with a nickel collector rather than the standard litharge (lead oxide) fusion.

The next set of even better results came from the sampling of a 5 kg surface sample at the Tres Estados property. In June 2017, it stated combined assay results of 102 gpt Au, 63 gpt Pt, 36 gpt Pd and 135 gpt Ag from a two stage extraction process. Then, pyrometallurgical tests undertaken on two 15 kg samples returned 666 gpt silver and 466 gpt silver. Yet there is more. In July, BBX reported

assays of 58 gpt Au, 442 gpt Ag, 0.22% copper and 103 gpt tin, from the Ema prospect.

So, BBX seems to be specialising in the business of using its proprietary assaying techniques to demonstrate gold where no-one else can find it. Bravo. Alchemy is alive and well.

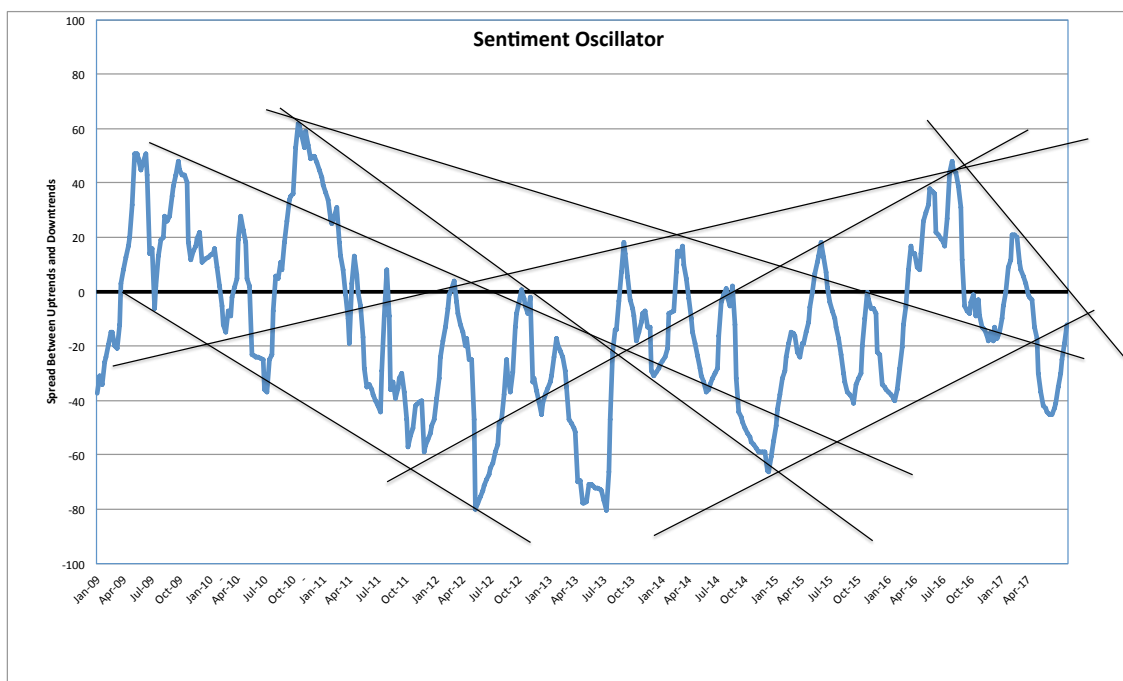
So, where does this leave us? Your head is probably spinning, like mine. Can we really take this story seriously? Would the company really make ASX releases if they weren't true? With the increasingly strict supervision of mining companies by ASIC, and the JORC standards, surely we are now in an environment where reports can be trusted.

But wait just a minute. I recently learned that the ASX doesn't impose any reporting requirements when it comes to metallurgy. It is only concerned with geology and JORC standards. When I questioned the ASX on another matter relating to metallurgy, I was told that the ASX didn't worry about it and to look to the Corporations Act or the Trade Practices Act for any remedy. So, there is a regulatory blind spot in this area. It is a free for all.

Maybe the BBX story would be more believable if it didn't get better and better, and if the grades didn't improve with each new assay, across more than one project. If it seems to good to be true ...

Over the years I have seen a number of stories where companies have said that they have come across rich new mineralisation that hasn't responded well to conventional assay techniques. Not surprisingly, they are always high grade and for some reason PGMs are often involved as well as gold. Even less surprisingly, they ended up being scams or they never went anywhere. Will BBX be the first to buck the trend?

Whatever assay technique is used, whatever other "invisible" gold is identified, it matters not if it can't be turned into gold bars. That is the only commercial result we should be interested in. Everything else is either fake news or just pumping the market. I'd have to say that the \$70m market capitalisation means that there are some people out there who do believe it, but don't include me in that group.



Sentiment Indicator: The number of stocks breaching shorter term, six month downtrends, is increasing. Looking at the pattern developing on the Oscillator we see that there might have to be some work around these levels before the real fun starts and there is a breakout into clear ground There were 27% (24%) of the charts in uptrend and 39% (43%) in downtrend.

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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	still sideways	
Metals and Mining	XMM	still rising	
Energy	XEJ	sideways	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	a little stronger	gold
Aeon Metals	AML	rising again	copper + cobalt
Alacer Gold	AQG	falling from rally	gold – production
Alkane Resources	ALK	spiked higher	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Aguia Resources	AGR	weaker	phosphate
Alicanto Minerals	AQI	new low on rights issue shortfall	gold exploration
Allegiance Coal	AHQ	rising	coal
Alliance Resources	AGS	sideways	gold exploration
Alltech Chemicals	ATC	pullback after breakout	industrial minerals
Anova Metals	AWV	strong rebound, then fell again	gold
Antipa Minerals	AZY	rallying	gold
Apollo Consolidated	AOP	breaching downtrend	gold exploration
Archer Exploration	AXE	pullback	magnesite, graphite
Argent Minerals	ARD	gentle uptrend	polymetallic
Aspire Mining	AKM	testing downtrend	coal
Atrum Coal	ATU	new low	coal
Aurelia Metals	AMI	at apex of wedge	gold + base metals
Auroch Minerals	AOU	down	exploration
Aus Tin	ANW	testing downtrend	tin, cobalt
Australian Bauxite	ABX	stronger	bauxite
Australian Potash	APC	testing downtrend	potash
Australian Mines	AUZ	gentle uptrend commenced	cobalt/nickel
Australian Vanadium	AVL	down	vanadium
Avanco Resources	AVB	nudging resistance line	copper
AWE	AWE	breached downtrend	oil and gas
Azure Minerals	AZS	sideways through downtrend	silver
BHP	BHP	short term uptrend	diversified
Base Resources	BSE	breaching uptrend	mineral sands
Bathurst Resources	BRL	continuing higher	coal
Battery Minerals	BAT	reached resistance line	graphite
BBX Minerals	BBX	uptrend, but correcting now	gold
Beach Energy	BPT	breached steepest downtrend	oil and gas
Beadell Resources	BDR	testing downtrend	gold
Berkeley Resources	BKY	testing downtrend	uranium
Berkut Minerals	BMT	breached downtrend	cobalt
Blackham Resources	BLK	slump to new low	gold
Broken Hill Prospect.	BPL	rising	minerals sands, cobalt
Buru Energy	BRU	sideways at lows	oil
Canyon Resources	CAY	new low	bauxite
Cardinal Resources	CDV	breaching uptrend after placement	gold exploration
Carnegie Clean Energy	CCE	testing uptrend	wave energy
Cassini Resources	CZI	testing downtrend	nickel/Cu expl.
Chalice Gold	CHN	holding uptrend	gold
Cobalt One	CO1	rally on change of name (from Equator)	cobalt

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Cobalt Blue	COB		new uptrend	cobalt
Comet Resources	CRL		new high	graphite/graphene
Consolidated Zinc	CZL		downtrend	zinc
Corizon Mining	CZN		breached downtrend	cobalt
Crusader Resources	CAS		breached downtrend	gold/iron ore
Dacian Gold	DCN		breached downtrend	gold exploration
Danakali	DNK		still in uptrend	potash
Doray Minerals	DRM		back in downtrend	gold
Duketon Mining	DKM		new low	nickel
Eden Innovations	EDE		breached short term downtrend	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		rallying from lows	zinc
Evolution Mining	EVN		ST down, within LT uptrend	gold
Excelsior Gold	EXG		back to recent high	gold
Finders Resources	FND		LT uptrend	copper
First Australian	FAR		testing uptrend	oil/gas
First Graphite	FGR		testing secondary downtrend	graphite
Fortescue Metals	FMG		short term uptrend	iron ore
Galaxy Resources	GXY		testing downtrend	lithium
Galilee Energy	GLL		down	oil and gas, CBM
Gascoyne Resources	GCY		breached uptrend	gold
Global Geoscience	GSC		back to highs	lithium
Gold Road	GOR		uptrend continuing	gold exploration
Graphex Mining	GPX		new low then strong recovery	graphite
Heron Resources	HRR		drifting lower	zinc
Highfield Resources	HFR		continuing down	potash
Highlands Pacific	HIG		down	copper, nickel
Hillgrove Resources	HGO		back to highs	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		testing uptrend	mineral sands
Independence	IGO		sideways	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached support line	gas
Kibaran Resources	KNL		testing downtrend	graphite
Kin Mining	KIN		surge on gold discovery announcement	gold
Legend Mining	LEG		sideways	exploration
Lithium Australia	LIT		pullback after breakout	lithium
Lucapa Diamond	LOM		down	diamonds
Macphersons Res.	MRP		downtrend	silver
Medusa Mining	MML		side ways through downtrend	gold
MetalsX	MLX		LT uptrend in play	tin, nickel
Metro Mining	MMI		sideways to higher	bauxite
Mincor Resources	MCR		new uptrend	nickel
Mineral Deposits	MDL		on support line	mineral sands
Mustang Resources	MUS		breached downtrend	diamonds, rubies
MZI Resources	MZI		down	mineral sands
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		rallying	gold
NTM Gold	NTM		breached uptrend	gold
Oceana Gold	OGC		down after steep fall	gold
Oklo Resources	OKU		new high	gold expl.
OreCorp	ORR		down	gold development
Orioco Gold	OGX		breached downtrend, then pullback	gold development
Orocobre	ORE		under longer term downtrend	lithium

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Oz Minerals	OZL		breached downtrend	copper
Pacific American Coal	PAK		down	coal, graphene
Pantoro	PNR		new high	gold
Panoramic Res	PAN		downtrend	nickel
Peel Mining	PEX		pullback	copper
Peninsula Energy	PEN		down	uranium
Perseus Mining	PRU		new low	gold
Pilbara Minerals	PLS		hugging downtrend line	lithium/tantalum
PNX Metals	PNX		down	gold, silver, zinc
Red River Resources	RVR		holding longer term uptrend	zinc
Regis Resources	RRL		confirming uptrend	gold
Resolute Mining	RSG		still going lower	gold
Reward Minerals	RWD		new low	potash
RIO	RIO		recovery	diversified
RTG Mining	RTG		breached downtrend	copper/gold
Salt Lake Potash	SO4		down	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		rallying	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		back in downtrend	silver
Santos	STO		under long term support line	oil/gas
Sheffield Resources	SFX		still in downtrend	mineral sands
Silver Lake Resources	SLR		heavy fall	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		down	gas
Southern Gold	SAU		resuming uptrend	gold
Stanmore Coal	SMR		breaching long term support	coal
Sundance Energy	SEA		down	oil/gas
Syrah Resources	SYR		strong rise	graphite
Talga Resources	TLG		spike then pullback	graphene
Tanami Gold	TAM		short term down	gold
Tempo Australia	TPP		breached downtrend	mining services
Teranga Gold	TGZ		at lows	gold
Tiger Realm	TIG		breached downtrend	coal
Tiger Resources	TGS		suspended	copper
TNG Resources	TNG		testing short term downtrend	titanium, vanadium
Torian Resources	TNR		new low	gold expl'n
Toro Energy	TOE		breached first downtrend	uranium
Troy Resources	TRY		testing downtrend	gold
Tyranna Resources	TYX		testing downtrend	gold exploration
Vango Mining	VAN		uptrend breached	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		strong rise	gold
Westwits	WWI		rallying	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		down	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		still down	gold
Wolf Minerals	WLF		down	tungsten
Totals	27%	39	Uptrend	
	39%	57	Downtrend	
		147	Total	

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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	34	23.1%
Copper	12	8.2%
Gold Exploration	14	9.5%
Coal	10	6.8%
Oil/Gas	9	6.1%
Potash/Phosphate	6	4.1%
Mineral Sands	7	4.8%
Graphite	7	4.8%
Silver	6	4.1%
Zinc	6	4.1%
Lithium	5	3.4%
Nickel	5	3.4%
Uranium	4	2.7%
Cobalt	4	2.7%
Tin	2	1.4%
Bauxite	3	2.0%
Diamonds	2	1.4%
Iron Ore	1	0.7%
Other	10	
Total	147	

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