FAR EAST CAPITAL LIMITED
Suite 24, Level 6, 259 Clarence Street
SYDNEY NSW AUSTRALIA 2000
Tel : +61-2-9230 1930 Mob: +61 417 863187
Email : wgrigor@fareastcapital.com.au
AFS Licence No. 253003 ACN 068 838 193

The Mining Investment Experts

Weekly Commentary

12 January 2019 Charts on Friday's Close Analyst : Warwick Grigor

Stabilising US markets and stronger leaders in Oz

Potentially very bullish junctures next week

Interestingly, both the All Ords and Metals and Mining Indices have bounced back into short term uptrends. Both are approaching resistance lines that date back to highs a few months ago. Watch over the next week to see if the All Ords can close at 5,900, and the Metals and Mining index can close above 3,800. If so, it will be a very bullish sign. If they turn down at these levels it means that there is further work needed before we can get too excited.

Compared with a year ago …

At this time last year our mining market was experiencing a strong New Year rise that continued until the Dow decided to wet its pants late January/early February. We haven't yet seen the same strength in our market this year, except for the stronger, quality gold producers. Generally there has been an abatement of the selling, so our market does look better, but the leaders have been the most keenly sought after. Juniors are still fragile.

You need to look at intra-intra-day movements

It has been interesting watching the intra-day movements of the Dow in recent weeks. It has frequently been moving dramatically on the opening and the rest of the day has been a battle to move in the other direction. It is a real game of push and pull which suggests festering indecision. Consensus is non-existent as the closing figure is merely an overnight pause before the next battle. It certainly doesn't make me think there is a fundamental reason with any credibility to suggest the US markets will move higher (other than in rallies).

Looking specifically at last week, we started to see some sort of a sustained recovery in the Dow that has delivered a 5.3% rise by close of business on Thursday, since the low of 22,686 on 3rd January. This was probably spurred on by the news of the 4th, when Jerome Powell hinted that the Fed might postpone further interest rate rises. While that is helpful, it doesn't change our view that the medium term trend is down.

Is MZI going down the gurgler?

One of the more disgraceful performances in recent years, and one that highlights commissioning risks of a new project, is the miserable story of MZI Resources (MZI). Back in October 2016, the share price was ramped up from 38¢ to a high of 58¢ over eight days, before going into a trading halt and then a suspension while it placed approximately $45m at 40¢ a share. The shares have headed south ever since, recently trading as low as 3¢. One could easily criticise the brokers for doing a placement at a premium to the VWAP and allowing the surge in the price in the days immediately prior to the raising. I don't know the exact circumstances but I know it looked suss then, and it looks suss now given the subsequent history.

There is a line of thought that says the specialist resource investment funds do their homework before committing to large parcels, but I think that history shows that they do make serious mistakes from time to time, and more often than they should. Maybe someone could explain to me why this happens, and how they keep managing to raise more funds to manage. In the case of MZI Resource, RCF stumped up with $20m of equity as part of the financing deal.

On 29 October 2015, MZI announced that mineral sands concentrate production had commenced at the Keysbrook plant in WA, three weeks ahead of schedule. Coincidently, this coincided with the $45m placement. The production schedule called for 95,000 tpa of leucoxene and zircon products with a 50% EBITDA margin (it only produced 75,200 t in 2017/18)The first shipment of concentrates was dispatched in late December 2015, and in January 2016, the Company announced that sales were set to increase significantly.

The share price traded down below the placement price within a month of the raising being announced. The subsequent positive operational announcements didn't arrest the slide. By May 2016, the share price had traded down to 22¢, a 45% drop on the placement price. In the first six months of 2016, the Company kept advising the market how well operations were going, but you wouldn't have known it judging by the share price. There was a rally back to 40¢ in July 2016, but it turned down again and now it is trading at 3-4¢. What went wrong?

Expectations of a positive cash flow were announced in September 2016, after the mandatory ramp-up period that all mining projects go through, but the first public sign that things weren't rosy came with the resignation of the Managing Director in November and the appointment of an interim Managing Director. A US$16m debt funding from RCF was announced at the same time, as a number of plant modifications were required.

The Appendix 3B released in January 2017, showed that the company bled $8.6m in the previous December quarter. Operations lost $3.9m and interest and finance costs were $3m.

Fast forward to 30 September, 2018, where MZI's debt position was $177m. This week the market capitalisation was hovering around $10m. Given that gross cash flow from operations (sales minus production costs on the 3B) for the nine months to September 2018, was a negative $11.2m, there was no way that the company can trade its way out of the present dire position. Its market capitalisation is too low to facilitate meaningful equity capital raisings. So, the company's finances need to be restructured and shareholders will take a big haircut - even from these low levels. Ironically, RCF is both the largest shareholder (54%) and a major financier to a company in a world of pain. MZI reported net losses of $31m and $35m in the years to 30 June 2017 and 2018, respectively.

There are a number of lessons that can be learned from this story.

(1) beware of share prices that are ramped up prior to a placement

(2) don't be fooled by bullish stock exchange releases where the rhetoric greatly exceeds operational performance

(3) don't assume the the specialist fund managers are any better at picking winners than the rest of the market

(4) don't assume that going into production is a good thing

In answer to question of whether it is going down the gurgler … I think you will find that it already has. It is what bankers call … a work-out situation. There is no point in continuing with the chart coverage. As the 2018 Annual Report stated, in the notes to the accounts;

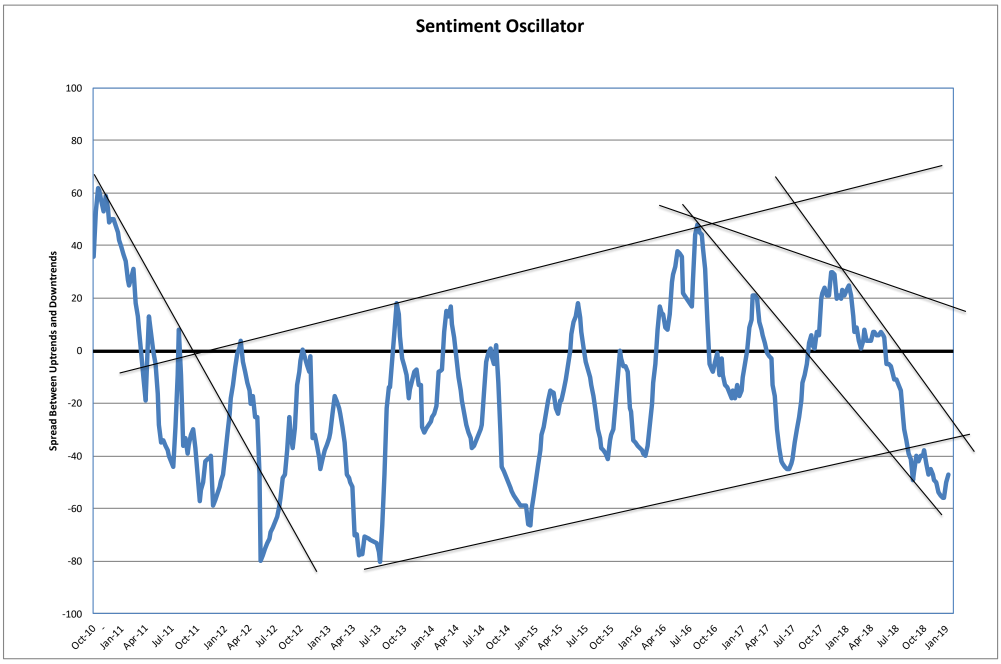
"As a result of these matters there is a material uncertainty related to conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business."

More on s708 restrictions

It is always good to receive feedback on my comments, even when that comment isn't in agreement with what I have said. The piece on s708 attracted more comments than usual, with professionals referring to the rules as "madness" and "ridiculous". One reader said that not only was his firm not allowed to extend s708 deals to those who don't qualify - which of course, is the law - but ASIC had directed that non s708s *weren't even allowed to see the deals.* Does that mean that ASIC doesn't want them to see what they are missing out on? What is wrong with them seeing them, for informational purposes? How does this policy promote full and open disclosure? Well, it doesn't. It is very selective and inconsistently hypocritical. It doesn't give us any confidence in the objectivity of the regulator. If the objective is a level playing field (which is about as likely as a unicorn), then ASIC needs to make sure all information is available to all market participants, equally. It is wrong to have one rule for the rich and one for the poor.

It is summed up by another comment; "*Can't agree more about the stupidity of the s708 requirements*".

Disclosure: Nil



Sentiment Oscillator: Sentiment strengthened a little over the past week, with 15% (15%) of the charts in uptrend and 62% (65%) in downtrend on Friday's close. A few more charts are moving out of downtrends.

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		breached downtrend, heading for final resistance	
Metals and Mining	XMM		breached downtrend, heading for final resistance	
Energy	XEJ		breached downtrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Adriatic Resources	ADT		rising wedge	zinc
Aeon Metals	AML		downtrend confirmed	copper + cobalt
Alacer Gold	AQG		at final resistance	gold – production
Alkane Resources	ALK		sideways at lows	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alchemy Resources	ALY		sideways	nickel, cobalt
Alicanto Minerals	AQI		back to lows	gold exploration
Allegiance Coal	AHQ		testing downtrend	coal
Alliance Resources	AGS		resting on support line	gold exploration
Altech Chemicals	ATC		down	industrial minerals - synthetic sapphire
Anova Metals	AWV		new low on poor production report	gold
Apollo Consolidated	AOP		breached support	gold exploration
Archer Exploration	AXE		sideways at lows	magnesite, graphite
Argent Minerals	ARD		breached steepest downtrend	silver
Aurelia Metals	AMI		testing uptrend	gold + base metals
AusTin	ANW		down	tin, cobalt
Australian Bauxite	ABX		testing uptrend	bauxite
Australian Potash	APC		at final resistance	potash
Australian Mines	AUZ		down again	cobalt/nickel
Australian Vanadium	AVL		down heavily	vanadium
Bounty Coal	B2Y		strongly rally after funding	coal
BHP	BHP		corrected back to support line	diversified
Base Resources	BSE		down	mineral sands
Bathurst Resources	BRL		slump	coal
Battery Minerals	BAT		sideways at lows	graphite
BBX Minerals	BBX		secondary downtrend	gold
Beach Energy	BPT		testing downtrend	oil and gas
Beadell Resources	BDR		secondary downtrend	gold
Bellevue Gold	BGL		testing uptrend	gold
Berkeley Energia	BKY		surged higher- Spanish media	uranium
Blackstone Minerals	BSX		back to lows	gold, cobalt
Breaker Resources	BRB		down	gold
Broken Hill Prospecting	BPL		testing downtrend	minerals sands
Buru Energy	BRU		down	oil
Cardinal Resources	CDV		drifting lower	gold exploration
Cassini Resources	CZI		stronger	nickel/Cu expl.

Celsius Resources	CLA		rallying	copper/cobalt
Chalice Gold	CHN		rallying	gold
Cobalt Blue	COB		free fall on study results	cobalt
Comet Resources	CRL		breached downtrend, but correction down	graphite
Dacian Gold	DCN		steeply higher	gold
Danakali	DNK		breached uptrend	potash
Davenport Resources	DAV		steep rise	potash
Doray Minerals	DRM		sideways - merger	gold
Eden Innovations	EDE		down	carbon nanotubes in concrete
Egan Street Resources	EGA		new low	gold
Emerald Resource	EMR		breached steepest downtrend	gold
Evolution Mining	EVN		higher	gold
Exore Resources	ERX		rising	gold exploration
FAR	FAR		crunched down on dud oil well	oil/gas
First Graphene	FGR		rising again	graphene
Frontier Diamonds	FDX		breached downtrend	diamonds
Fortescue Metals	FMG		rallied out of steepest, but still in LT downtrend	iron ore
Galaxy Resources	GXY		heavy fall, then a new uptrend	lithium
Galilee Energy	GLL		turned down	oil and gas, CBM
Gascoyne Resources	GCY		rallying from lows	gold
Gold Road	GOR		breached uptrend	gold exploration
Golden Rim	GMR		sideways	gold exploration
Graphex Mining	GPX		rally then retracement	graphite
Heron Resources	HRR		sideways	zinc
Highfield Resources	HFR		rallied to meet resistance line	potash
Highlands Pacific	HIG		down	nickel, cobalt
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		rallied to meet resistance line	battery metals
Iluka Resources	ILU		down heavily	mineral sands
Image Resources	IMA		downtrend	mineral sands
Independence Group	IGO		back in downtrend	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Jervois Mining	JVR		testing downtrend	nickel/cobalt
Jindalee Resources	JRL		surge higher	lithium
Karoon Gas	KAR		new low	gas
Kasbah Resources	KAS		still in downtrend	tin
Kibaran Resources	KNL		testing downtrend	graphite
Kin Mining	KIN		heavy fall	gold
Legend Mining	LEG		down	nickel exploration
Lepidico	LPD		continuing down	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		new low	rare earths
Macphersons Res.	MRP		still down	gold/silver

Mako Gold	MKG		testing downtrend	gold
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		down again	tin, nickel
Metro Mining	MMI		down	bauxite
Mincor Resources	MCR		sideways	gold
Musgrave Minerals	MGV		rising	gold exploration
Myanmar Minerals	MYL		bg	zinc
Nelson Resources	NES		slump back to lows	gold exploration
Neometals	NMT		down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		new high	gold
NTM Gold	NTM		back into downtrend	gold
Oceana Gold	OGC		rising again	gold
Oklo Resources	OKU		down	gold expl.
Orecorp	ORR		breached downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		heavy fall	lithium
Oz Minerals	OZL		new low	copper
Pacific American Coal	PAK		down	coal
Pantoro	PNR		testing downtrend	gold
Panoramic Res	PAN		downtrend again	gold , nickel
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		breached downtrend on drill intercept	copper
Peninsula Energy	PEN		downtrend again	uranium
Perseus Mining	PRU		improving within a downtrend	gold
Pilbara Minerals	PLS		down heavily	lithium/tantalum
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		still down	polymetallic exploration
Prodigy Gold	PRX		down	gold exploration
Real Energy	RLE		testing uptrend	gas
Red5	RED		rising	gold
Red River Resources	RVR		down	zinc
Regis Resources	RRL		moving higher	gold
Resolute Mining	RSG		rallying	gold
RIO	RIO		down	diversified
Salt Lake Potash	SO4		re-entering downtrend	potash
Saracen Minerals	SAR		up	gold
St Barbara	SBM		up	gold
Sandfire Resources	SFR		new low	copper
Santana Minerals	SMI		new low	silver
Santos	STO		short term down	oil/gas
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		breached support	nickel

Sipa Resources	SRI		crunched down	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		downtrend again	oil/gas
Syrah Resources	SYR		new low	graphite
Talga Resources	TLG		down	graphite
Tanami Gold	TAM		testing downtrend	gold
Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		down	coal
Triton Minerals	TON		down	graphite
Troy Resources	TRY		down	gold
Tyranna Resources	TYX		back in downtrend	gold exploration
Vango Mining	VAN		down	gold
Vector Resources	VEC		down again	gold
Venturex	VXR		testing downtrend	zinc
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		down	gold
Westwits	WWI		down	gold
Western Areas	WSA		down	nickel
Whitehaven Coal	WHC		down	coal
Totals	15%	22	Uptrend	
	62%	88	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	**38**	**26.6%**	
Gold Exploration	**14**	**9.8%**	
Graphite	**9**	**6.3%**	

Nickel	**9**	**6.3%**	
Coal	**8**	**5.6%**	
Oil/Gas	**8**	**5.6%**	
Lithium	**8**	**5.6%**	
Copper	**6**	**4.2%**	
Mineral Sands	**5**	**3.5%**	
Zinc	**5**	**3.5%**	
Potash/Phosphate	**5**	**3.5%**	
Cobalt	**4**	**2.8%**	
Tin	**3**	**2.1%**	
Uranium	**3**	**2.1%**	
Rare Earths	**3**	**2.1%**	
Silver	**2**	**1.4%**	
Bauxite	**2**	**1.4%**	
Diamonds	**2**	**1.4%**	
Vanadium	**2**	**1.4%**	
Iron Ore	**1**	**0.7%**	
Other	**6**		
Total	**143**		

FEC Disclosure of Interests: It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. In this week's publication FEC discloses that interests associated with the the author hold shares in First Graphene. and Lucapa Diamond Company. The author is chairman of First Graphene and one of the largest shareholders, through a number of entities. Over the last three years FEC has received fees from Blackstone Minerals, Broken Hill Prospecting, Cobalt Blue, First Graphene, Golden Rim, Lucapa Diamond Company, Orinoco Gold and West Wits for corporate and capital raising services. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.