

14 August 2021

On Friday's Close

Analyst : Warwick Grigor

## Chakana Copper - excellent copper/gold/silver project in Peru

The two main negatives restraining the mining indices at present are the weaker iron ore price and the slump in the gold price (though it recovered somewhat by the end of the week). The iron ore price is off by about 28% from its high but there has only been a limited correlation with the share prices. That is fine if the iron ore prices bounce higher from here, but in the absence of such a move, it is only a matter of time before share prices get crunched. Whether that ushers in a bear market for iron ore companies remains to be seen but we are certainly past the peak.

Gold prices have promised and failed to deliver repeatedly over the last 12 months. It is hard to know what to do. One well-credentialed commentator in the USA has described this as a gold bear market. He is looking for one more crunch down that will scare the pants off the bulls, and then he is calling a mighty upswing that will be very profitable for traders. If you panic and sell out, you will miss the big run upwards. Here's hoping he is right.

Leading lithium stocks have been much stronger over the week and rare earths stocks continued their return to favour, with the recent IPO, Australian Rare Earths (AR3), being a particularly good performer. Hydrogen stocks also performed better.

We have gone back to the TSX this week with another very interesting copper/gold exploration story, this time in Peru - Chakana Copper Corp (TSX.V:PERU.V), with a swarm of tourmaline breccia pipes.

### Chakana Copper - Soledad Cu/Au/Ag Project

Chakana's share price has fallen from 77¢ in September 2020, to a June low of 28¢. Last week it was back to 34.5¢, giving a market capitalisation of C\$38m. Apart from signs that the downtrend has been breached, what other merits does the stock have?

Good quality management is an essential precondition to investing. The CEO, David Kelley, has had a distinguished career with companies such as WMC, BHP, Newmont, OzMinerals and MMG. The chairman is Doug Silver, a geologist who I first met in the 1980s. Doug has had more commercial successes than your average geologist. Doug Kirwan, the highly regarded Australia geologist who spent many years with Ivanhoe, also had an early directorial involvement. Whilst he is no longer on the board, he continues to offer insightful geological input from time to time. Chakana has more management depth than the average speculative company.

### Favourable Location and Logistics in Peru

The Soledad copper/gold/silver project is located in the Ancash Province in Peru, which is an active mining district serviced with good infrastructure; grid power and plentiful water. The administration is mining-friendly, though there has been some banter from recently elected President Castillo who is a self-confessed socialist. One of the

reasons for the weakness in the share price this year was probably due to uncertainty about what changes he may bring, but he doesn't have a free hand due to the need to deal with diverse parties in Peru's Congress. The country is too dependent upon mining to do anything other than be supportive, with 60% of Peru's export income earned from this sector. The corporate tax rate is currently 29.5% and royalties can range from 1 to 3%.

While the elevation of 3,800-4,600m is high by Australian standards, it is considered reasonable by miners in the region.

### Breccia pipes - a different style of mineralisation to frequently sought after porphyries

The Soledad discovery is based on a multitude of tourmaline breccia pipes rather than one large discrete orebody, as you would expect with a porphyry. These occur in a field that currently measures 3 km x 4 km, without closing off the boundaries. Of 110 targets, 23 have been confirmed as breccia pipes and only 15 of these have been tested. Over 200 diamond drill holes have been drilled since 2017. The weighted average grade of the 52 holes drilled into pipe Bx 1, the most advanced target, is 2.9% CuEq or 4.43 gpt AuEq.

Some selective higher grade intercepts from Bx 1 are;

- 74m at 3.31 gpt Au, 65 gpt Ag & 1.11% Cu from 40m
- 187m at 1.18 gpt Au, 65 gpt Ag & 1.05% Cu, from 46m
- 194m at 1.34 gpt Au, 65 gpt Ag & 1.13% Cu from 50m

From Bx 5, the Company has reported;

- 164m at 1.68 gpt Au, 27 gpt Ag & 0.51% Cu from 40m
- 234m at 1.3 gpt Au, 21 gpt Ag & 0.79% Cu from 30m

Bx 6 and Bx 7 have returned;

- 22.8m at 2.93 gpt Au, 1,283 gpt Ag & 1.37% Cu from 64m
- 32m at 0.83 gpt Au, 127 gpt Ag & 0.14% Cu from 149m

Most recently, on 27 July 2021, Chakana reported a spectacular intercept of 12m of massive sulphides carrying grades of 27.4% Cu, 967 gpt silver and 0.38 gpt gold from its Bx 1 pipe. This hole was part of a 16,000m resource definition drilling program currently underway.

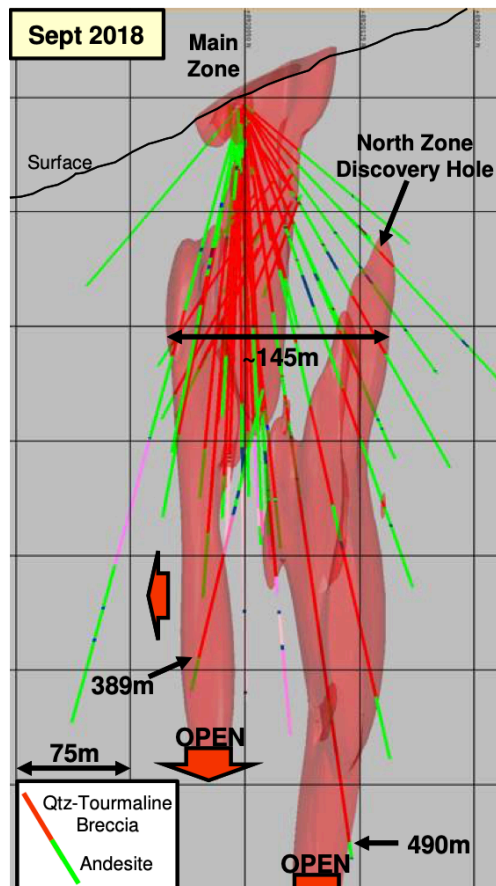
As you can see, there is quite a bit of variation in grades and mixture of metals. In the interests of being transparent, you should note that some of the holes have been oriented such that you are getting down dip perspectives in many cases. This is a function of where the rig has to be mounted and the geometry of the near vertical pipes. The diagram over the page demonstrates this.

Tourmaline breccia pipes are formed when you have a highly pressured system at depth that bursts through the cap rock holding it in, and the fluids surge upwards to be deposited in near vertical bodies that are shaped like upside down cones. As they get closer to the surface the

speed and the pressure diminishes and the pipes narrow. They do not make it to the surface, but they can extend to depths in excess of 1 km.

Think of Soledad as being a mountain hundreds of metres high, riddled with numerous new vertical orebodies that are narrower near the surface and broader at depth.

Once the structural setting of the pipes is in place, it provides pathways and trap sites for a subsequent injection of mineralised fluid and deposition of the copper, gold and silver, adding to whatever elements that came with the formation of the pipe structures themselves. Sometimes they can even be upgraded to the massive sulphide style of mineralisation carrying very high grades.



### Efficient underground mining geometry

At Soledad, the base of the mountain is at 3,950m altitude and the peak is around 4,500m. That gives approximately 500m of vertical relief into which you can drive adits and start stoping upwards, which is very convenient. There may be some open pitable ore, but most of it will be extracted using underground mining methods.

It is possible that a number of the pipes can be accessed by driving through the country rock from a main adit, enabling the flexibility of multiple draw points. Starting mining at the lower levels should also give better mining widths and it will be more efficient than hoisting ore to the surface.

### Still at the exploration stage

We shouldn't put the cart before the horse so we should get back to the exploration phase that now occupies the focus of the company. There could be dozens of mineralised

pipes (with a variety of diameters) to consider and it will take time to drill all of these. So whatever the maiden resource is when announced, it will only be a waypoint. Chakana has publicly stated a target of 10 Mt at 2% CuEq from 6-7 pipes over a 300m depth. Ultimately it would be reasonable to expect 20-30 Mt or more, at some time further down the path when more pipes have been drilled and the depth extensions are added.

Establishing drill caddies from an exploration adit will be more useful in accessing the deeper parts of the orebodies, enabling shorter holes and greater efficiency. However, getting approvals to excavate an adit could take one or two years. The Company will want to keep information flow going in parallel in order to keep shareholders enthusiastic so it may continue drill testing additional pipes from the surface.

### So where is this taking us?

There is no doubt that this is an exciting discovery, but it will take time to drill and define enough pipes to support the commencement of mining. We can expect to see the release of an interim resource estimate in Q4 2021, sufficient to allow a scoping study/PEA that will provide some information on expected costs, and this will assist in achieving more precise focus for subsequent drilling.

While there is the complication of a multitude of pipes, with each of these requiring their own mine plan and each having its own grade distribution to consider, it is not necessary to exhaustively explore the whole field before getting into production. These multiple pipes will throw up a range of options that can also provide flexibility in mine planning.

Given the potential, the shares look very good value at these levels. We will have good news flow over the next six months that could lead to a rerating of the stock. Who knows what further goodies may be revealed in this exploration phase?

### Thermal coal prices have tripled this year

We get told that coal is on the way out. It is bad. There is no future in it. That thinking is driving us screaming for renewables of all shapes and sizes such that we have a ravenous appetite for battery input metals, for hydrogen and anything that uses the related technologies even when the economics are unknown. It is not exactly smart behaviour to rely on rhetoric alone. How much reliance should we place on group think? Ask this of the lemming running next to you. The market is full of wannabes. I'd prefer to take a closer look at what is happening in the real world.

Thermal coal is attracting more positive attention in the markets due to the price tripling over the last six months from \$50 to \$150 pt. Despite all the negatives the climate change activists create, coal is not going away in a hurry.

Global electricity demand is forecast to grow by nearly 5% in 2021, and 4% in 2022. Fossil-fuel based power is continuing to make up 40-45% of the extra demand. Whatever the benefits of alternative energy, it still can't deliver enough to satisfy demand. Thermal coal's share of the energy mix in the USA is actually forecast to increase, from 22% last year to 26% this year.

A gathering of environmental ministers in Italy, in July, proposed a resolution to end fossil-fuel subsidies and

phase out the use of coal. However, it was blocked by officials from China, India, Russia and Saudi Arabia. As idealistic and caring about the environment as we might want to be, coal will remain the default fuel for base-load power in many countries.

### Beware of “fake” graphene

You would have heard of the expression “fake news” with regards to news flow on the internet, even if it is just from Donald Trump fighting off the liberal press. The word “fake” has now found its way into the graphene sector with the University of Adelaide developing a testing methodology to identify what it views to be fake graphene, or putting it more bluntly, counterfeit graphene.

#### What is meant by “fake” graphene?

Graphene is a manufactured product made by reducing the carbon-based source material to something that is 10 atoms or less in thickness, to achieve the 2D status. Any thing less is not technically graphene.

It would be extremely rare to get 100% of the feedstock material reduced to precise graphene size because cost and technical considerations come into play. No-one is perfect. It is a matter of degree. The quality of any graphene product will depend upon how complete the conversion process has been and what negative implications are inherent in the level of impurities, for any given application.

In some cases the quality of graphene will be determined by the manufacturing process alone, but in other cases there will be companies that counterfeit graphene by adding low-cost black carbonaceous material. What industry really needs is a reliable testing methodology to accurately determine where along the scale any graphene product sits. Industry wants to know what it is getting, beyond just representations from the vendor. That is where the University of Adelaide’s recent paper comes into focus.

#### University of Adelaide’s paper

According to the University of Adelaide, a large percentage of material called graphene that is available in the market today is not graphene at all, but is a mixture of graphene, graphitic and other carbonaceous material. Its findings have been published in the the ASC Publications Analytical Chemistry magazine; “Accounting Carbonaceous Counterfeits in Graphene Materials Using the Thermogravimetric Analysis (TGA) Approach” by Dusan Losic,\* Farzaneh Farivar, Pei Lay Yap, and Afshin Karami. <https://doi.org/10.1021/acs.analchem.1c02662>

#### Lesser quality means compromised performance

The paper expresses concerns for downstream graphene end users with a potential impact on the future of the entire graphene industry, as these fake products can adversely affect the performance of graphene materials. The problem in identifying these lesser products is that these fake products cannot be identified visually. There needs to be a scientifically derived test.

#### The new TGA test

New ISO standards have been recently published to specify the analytical techniques for characterising the structural properties and chemical composition such as

number of layer/thickness, lateral flake size, level of disorder  $sp^2$  structure, specific surface area, etc. Most of these methods that are accepted as the most trusted, such as Raman spectroscopy, atomic force microscopy (AFM), transmission electron microscopy (TEM), and X-ray photoelectron spectroscopy (XPS), are spot characterisation methods that can probe individual or few graphene particles dispersed on the substrate.

Unfortunately, these methods have limitations when probing a very large number of graphene particles (+500) from one sample and they are not able to effectively assess representative properties of bulk materials in powder form at large scales (kg or tonnes). They can easily fail to detect non-graphene impurities and they are expensive and time consuming. So, the University has developed a TGA method (Thermogravimetric Analysis) that focuses on distinctive thermal decomposition properties.

#### My personal experience in the sector

I have been up to my eyeballs in the graphene sector for about five years now. My activities span the whole range of involvement from that of analysis to being a financier and a substantial investor. I have reviewed many companies as I have climbed the information curve, but in almost every case the companies promoting their graphene capabilities fall short of full disclosure. Without that disclosure it is difficult to ascertain the truth.

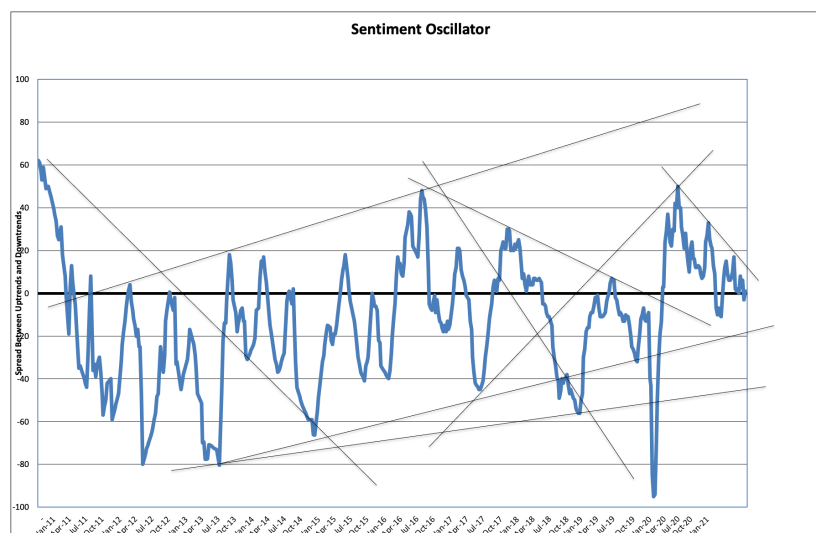
The embryonic graphene sector is a perfect world for promoters because whatever is promoted, the deficiencies of traditional test methodologies and uncertainties regarding standards leave these promoters with plenty of wriggle room. The method devised by the University of Adelaide is a step in the right direction in the improvement of accountability with regards to quality, but at the end of the day we, as investors, are still dependent upon the integrity of industry players in giving full disclosure.

#### How this relates to First Graphene

First Graphene has always emphasised the quality of its product and it has been very open in the release of data and specifications that testify as to the quality, seeing this as a critical distinguishing point in the sector. The frustrations tends to come from competitors in the industry who are more secretive with regards to accurate specifications, relying more on rhetoric than verifiable data. It makes it more difficult for potential customers to assess relative merits and it elongates the adoption cycle.

It is a credit to First Graphene that the University’s research has used its PureGRAPH product as the benchmark in the development of the TGA test.

*Disclosure: Interests associated with the author own shares and options in First Graphene. The author is a director of First Graphene and FEC has received capital raising fees.*



**Sentiment Oscillator:** Sentiment improved a little over the week with there being 34% (32%) of the charts in uptrend and 33% (35%) 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	another new high	
Metals and Mining	XMM	breached uptrend	
Energy	XEJ	breached downtrend, but then softer	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	testing support line	HPA
Adriatic Resources	ADT	new high	zinc, polymetallic
Alkane Resources	ALK	rising	gold
Alicanto Minerals	AQI	pullback on good drill result	base metals, silver, gold
Altech Chemical	ATC	breached downtrend	HPA, anodes
Alto Metals	AME	sideways	gold exploration
American Rare Earths (was BPL)	ARR	rising	rare earths
Antilles Gold	AAU	testing downtrend	gold
Arafura Resources	ARU	testing downtrend	rare earths
Ardea Resources	ARL	sideways through support line	nickel
Aurelia Metals	AMI	still in downtrend	gold + base metals
Australian Potash	APC	testing downtrend	potash
Australian Rare Earths	AR3	rising	rare earths
Auteco Minerals	AUT	breached downtrend	gold exploration
Azure Minerals	AZS	testing downtrend	nickel exploration
BHP	BHP	new high	diversified, iron ore



Auteco Minerals	AUT		breached downtrend	gold exploration
Azure Minerals	AZS		testing downtrend	nickel exploration
BHP	BHP		new high	diversified, iron ore
Base Resources	BSE		sideways	mineral sands
Beach Energy	BPT		down, near lows	oil and gas
Bellevue Gold	BGL		breached downtrend	gold exploration
Blue Star Helium	BNL		breached downtrend	gas, helium
BMG Resources	BMG		pullback following placement	gold exploration
Boab Metals	BML		in a secondary downtrend	silver/lead
Breaker Resources	BRB		down	gold exploration
Buru Energy	BRU		down	oil
Calidus Resources	CAI		rising again	gold
Capricorn Metals	CMM		rising	gold
Caravel Minerals	CVV		breached uptrend	copper
Celsius Resources	CLA		down	copper
Chalice Mining	CHN		breached support line	nickel, copper, PGMs, gold exploration
Chase Mining	CML		down	nickel/copper/PGE
Chesser Resources	CHZ		strong rally	gold exploration
Cobalt Blue	COB		downtrend	cobalt
Cyprium Metals	CYM		testing downtrend	copper
Danakali	DNK		long term downtrend	potash
De Grey	DEG		testing downtrend	gold
E2 Metals	E2M		sideways	gold exploration
Ecograp (was Kibaran)	EGR		surge higher	graphite
Element 25	E25		down	manganese
Emerald Resources	EMR		down	gold
Euro Manganese	EMN		less steep uptrend	manganese
Evolution Mining	EVN		down	gold
Firefinch	FFX		strongly higher	gold
First Graphene	FGR		back to support line	graphene
Fortescue Metals	FMG		surge then slump	iron ore
Galaxy Resources	GXY		new high	lithium
Galena Mining	G1A		breached downtrend	lead
Galilee Energy	GLL		down	oil and gas, CBM
Genesis Minerals	GMD		testing downtrend	gold
Genmin	GEN		testing downtrend	iron ore
Gold Road	GOR		softer	gold
Hastings Technology Metals	HAS		testing downtrend	rare earths
Hazer Group	HZR		rallied to resistance line	hydrogen
Highfield Resources	HFR		down	potash
Hillgrove Resources	HGO		down	copper
Iluka Resources	ILU		new high	mineral sands
Image Resources	IMA		sideways	mineral sands
Independence Group	IGO		new high	gold

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ioneer (was Global Geoscience)	INR		rising	lithium
Ionic Rare Earths (Oro Verde)	IXR		recovering long term uptrend	rare earths
Jervois Mining	JVR		breaching uptrend	nickel/cobalt
Jindalee Resources	JRL		surged higher	lithium
Kairos Minerals	KAI		testing ST downtrend	gold exploration
Kingston Resources	KSN		sideways	gold
Kingwest Resources	KWR		new low	gold
Latitude Consolidated	LCD		breached uptrend	gold
Legend Mining	LEG		turned down at resistance line	nickel exploration
Lepidico	LPD		new uptrend	lithium
Lindian Resources	LIN		rising again	bauxite
Lithium Australia	LIT		rallying	lithium
Los Cerros	LCL		sideways through support line	gold exploration
Lotus Resources	LOT		softer	uranium
Lucapa Diamond	LOM		rising from lows	diamonds
Lynas Corp.	LYC		new high	rare earths
Magnetic Resources	MAU		slump out of uptrend	gold exploration
Mako Gold	MKG		down again	gold exploration
Manhattan Corp	MHC		sideways	gold exploration
Marmota	MEU		sideways	gold exploration
Marvel Gold	MVL		rising again	gold exploration
Matador Mining	MZZ		down	gold exploration
MetalTech	MTC		testing uptrend	gold
Meteoric Resources	MEI		down	gold exploration
MetalsX	MLX		rallying	tin, nickel
Metro Mining	MMI		sideways at lows	bauxite
Mincor Resources	MCR		new high	gold/nickel
Musgrave Minerals	MGV		down	gold exploration
Neometals	NMT		new high	lithium
Northern Minerals	NTU		rising again	REE
Northern Star Res.	NST		down	gold
Oceana Gold	OGC		down	gold
Oklo Resources	OKU		testing downtrend	gold expl.
OreCorp	ORR		heavy correction after placement	gold development
Orocobre	ORE		new high	lithium
Oz Minerals	OZL		good rally	copper
Pacific American	PAK		down	coking coal
Pantoro	PNR		breached support line	gold
Panoramic Res	PAN		in a wedge	nickel
Peak Minerals	PUA		new low	copper exploration
Peak Resources	PEK		pullback	rare earths
Peel Mining	PEX		down	copper
Peninsula Energy	PEN		new high	uranium
Poseidon Nickel	POS		breached downtrend	nickel

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Perseus Mining	PRU		rising	gold
Pilbara Minerals	PLS		new high	lithium
Polarex	PXX		down	polymetallic exploration
Queensland Pacific Metals	QPM		new high	nickel/cobalt/HPA
Red River Resources	RVR		down	zinc
Regis Resources	RRL		new low on large financing	gold
Renegen	RLT		rallied to resistance line	gas, helium
RIO	RIO		correcting lower	diversified, iron ore
Rumble Resources	RTR		down	gold exploration
Salt Lake Potash	SO4		down	potash
St Barbara	SBM		testing downtrend	gold
Sandfire Resources	SFR		bouncing off support line	copper
Santos	STO		testing uptrend	oil/gas
Saturn Metals	STN		rising	gold exploration
Sheffield Resources	SFX		breached uptrend	mineral sands
St George Mining	SGQ		risen to resistance line	nickel
Silex Systems	SLX		secondary downtrend	uranium enrichment technology
Silver Mines	SVL		down	silver
Sipa Resources	SRI		testing downtrend	general exploration - Ni,Cu, Co, Au
South Harz Potash	SHP		down	potash
Stanmore Coal	SMR		breached steepest downtrend	coal
Strandline Resources	STA		pullback	mineral sands
Sunstone Metals	STM		rising	exploration
Talga Resources	TLG		testing downtrend	graphite
Technology Metals	TMT		rising	vanadium
Tesoro Resources	TSO		new low	gold exploration
Theta Gold Mines	TGM		testing downtrend	gold
Thor Mining	THR		sideways	gold exploration
Tietto Minerals	TIE		improving	gold
Titan Minerals	TTM		sideways	gold
Venturex	VXR		rallying	zinc
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		struggling at resistance line	gold
Westgold Resources	WGX		turned down at resistance line	gold
West Wits Mining	WWI		down	gold
Western Areas	WSA		on long term support line	nickel
Whitehaven Coal	WHC		new high	coal
Wiluna Mining	WMC		testing downtrend	gold
Yandal Resources	YRL		wedge forming	gold exploration
Zenith Minerals	ZNC		placement and downtrend	gold exploration
Zinc Mines of Ireland	ZMI		softening	zinc
Totals	34%	48	Uptrend	
	33%	47	Downtrend	
		142	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	29	20.4%	
Gold Exploration	25	17.6%	
Nickel	13	9.2%	
Copper	10	7.0%	
Lithium	8	5.6%	
Rare Earths	8	5.6%	
Oil/Gas	6	4.2%	
Iron Ore/Manganese	6	4.2%	
Zinc/Lead	5	3.5%	
Mineral Sands	5	3.5%	
Potash/Phosphate	5	3.5%	
Uranium	4	2.8%	
Graphite/graphene	4	2.8%	
Coal	3	2.1%	
Bauxite	2	1.4%	
Silver	2	1.4%	
Cobalt	1	0.7%	
Tin	1	0.7%	
Diamonds	1	0.7%	



Other	4		
Total	142		

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