

14 December, 2019

On Friday's Close

Analyst : Warwick Grigor

## UK election result and possible tariff cuts on Chinese goods take the spotlight

Politics seem to be heading the direction that the markets would prefer with talks of lifting tariffs on Chinese imports into the USA and the Tories winning power in Britain, but tomorrow could be another day. While the market is slowing in the lead up to Christmas, there is still a scramble by a number of companies seeking funds before the Xmas shutdown.

### *Canyon's bauxite offers an alternative to Guinea*

A few weeks ago we wrote up Lindian Resources, a junior bauxite exploration stock with promising leases in Guinea. At the time the share price was 1.5¢, but it has traded as high 4.1¢ last week - even after doing a \$0.5m placement at 1.6¢. Thus it seems that bauxite is getting some traction in the market if it has the right risk/reward ratio. The market is clearly very happy to take on risk when there is a commensurate possibility of a high reward.

I saw another interesting bauxite stock in Perth last week, Canyon Resources (CAY), this time with a project in Cameroon. It is not as speculative as Lindian, as there is already a large high grade resource of 431 million tonnes at 48.8% Al<sub>2</sub>O<sub>3</sub> with 2.6% total SiO<sub>2</sub> that has been defined (out of a larger 892 Mt resource). This grade is at the higher end of the range that is considered commercial.

Canyon Resources (CAY) has been establishing a foothold over substantial high-grade bauxite resources in recent years, having been granted the Minim Martap project licence in August, 2018. The Scoping Study has already determined that a US\$78m budget could establish a Stage 1, 3 Mtpa bauxite mining operation. Based on a selling price of US\$58 pt and opex of US\$43 pt (fob), the payback could be a relatively short three years. It is now expecting the PFS to be completed early next year.

Guinea is the powerhouse country in the seaborne bauxite trade, supplying more than 50% of work supplies and much of this is, in turn, controlled by the Chinese. The geopolitical risk of this situation highlights the need for geographical diversity, and Canyon stands well-positioned to provide an alternative source of premium quality bauxite.

Minim Martap is located 10 km from the 800 km railway line that connects the project to the shallow port of Douala. The deepwater port at Kribi would be a better long term proposition, but that will need a new 130 km rail link that will service a number of projects, not just Canyon's. It will be interesting to see what the PFS says, paying particular attention to the assumptions on the bauxite price that is used. While the in-situ grade is good, the project needs to

**Disclosure: As we were drafting this note Canyon Resource went into a trading halt to place \$2m at 16¢. FEC has offered to assist in the placement and expects to receive capital raising fees on a best endeavours basis.**

fall within the lowest cost quartile to have any serious chance of being developed.

At the recent price of 18.5¢, the market capitalisation of >\$80m suggests that Canyon is being taken seriously by the market, as it approaches the \$100m size. This is generally regarded as the magical institutional entry level size, below which it is very hard to get them interested.

### *Image Resources adds to life of profitable project*

Last Wednesday, Image Resources released a positive report on exploration drilling near its high-grade Boonanarring mineral sands mine in WA. The headline referred to the potential for a 40 km long mineralised shoreline to the west and parallel to the existing operations. This third major beach system appears to be above the water table and would therefore be amenable to dry mining. It might even have a lower waste to ore ratio.

When the Boonanarring mine was first developed it had a relatively short mine life. The priority at the time was to commission the mine and establish a positive cash flow. Having done so very successfully, the company has recently been accelerating the exploration program to extend the mine life. A revised ore reserve statement is expected to be released later this month and drilling will continue into 2020. We expect that this company will be seen as one of the best zircon mining companies in Australia in the near future, due to the coarse grain size and therefore good metallurgy, the high grades and the extending mine life. Click on the following link to access the previous note, from 9 November. [previous note](#)

*Disclosure: Interests associated with the author hold shares in Image Resources.*

### *Greenspan biography*

While I travel to work on the train each day I have been reading the book "The Man Who Knew" by Sebastian Mallaby. Amongst other things it goes into the machinations of the formulation of US economic policy covering many decades. Historically it is interesting, but more than that, it gives insight into how much guesswork is involved in managing the economy. There is no one textbook that gives all the answers as the living economy is comprised of many moving parts, all which interact to varying degrees. Add into the equation the emotional and social elements and just like the weather, it is constantly changing from year to year. What is important in one cycle might be largely irrelevant in the next. The economists work as hard as they can to understand and control our environment but all they

are really doing is influencing the chaos, to a lesser or greater extent.

There are of course a number of certain relationships that will give predictable outcomes and to which political dogma take philosophical guidance, such as those relating to socialism, capitalism, communist and marxism, but this is more about trying to make economic relationships promote political persuasions.

Perhaps the most important thing for any economic policy formulator to understand is that governments must be aware of the impact that their policies are having on the general population. The feedback loop must be rapid and efficient to enable changes in a timely manner, so that mistakes can be quickly addressed and damage is minimised. Good economic policy is at all times political and social, and in our society, it is the mainstay of democracy.

**Irresponsible Chernobyl parallel**

In an example of highly irresponsible journalism, last Wednesday The Australian described the volcanic explosion on White Island as a “Chernobyl-like tragedy”. Where is the parallel? White Island is a totally natural event that is basic to the existence of planet Earth. Chernobyl was a man-made disaster brought about by Soviet engineering incompetence. I’d be more interested to know

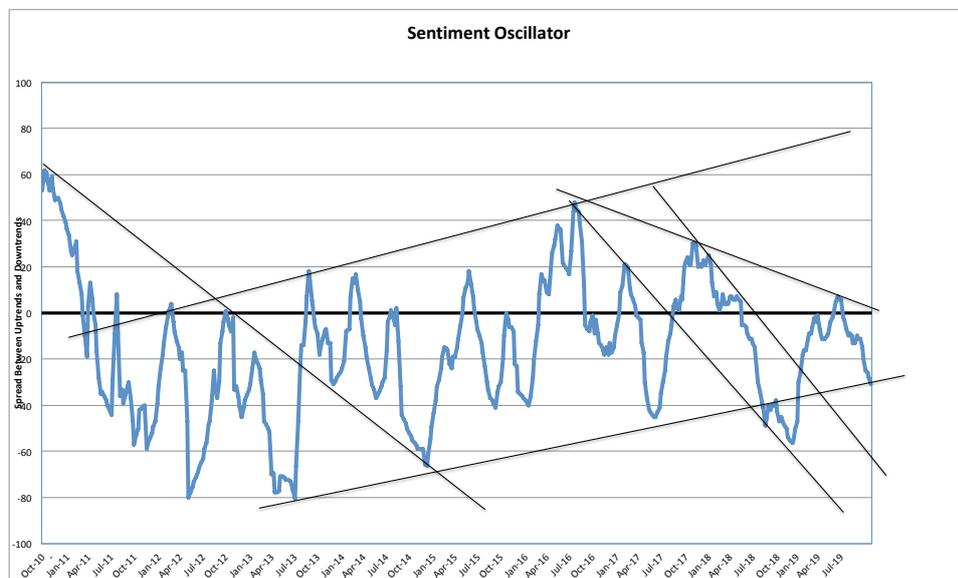
the amount of toxic gasses that have been released into the atmosphere and what impact this has on climate change. No-one seems to have bothered to do this , perhaps because it would help the climate change sceptics.

As far as tourists not being warned of the risks ... it is one of the world’s most active volcanoes. Visiting it is an extreme sport; exciting but dangerous. To many people, the more dangerous, the greater the appeal. I say give the people what they want and let them wear the consequences rather than run around and try and blame someone else for what happened.

**Dos and Don'ts in Raising Equity Finance**

I recently gave a paper at a 121 Conference that highlighted issues for companies raising money in the small mining scene. This is directed more for company executives, but it may be of interest to others. It is the second attachment in this email.

*Festive Season Weeklies: For the next 4-5 weeks the Weekly may be missing or be truncated, depending upon how I allocate my time between research, working on my country property in the Snowy Mountains and service in the RFA.*



**Sentiment Oscillator:** The market is poised for a Christmas, or New Year rally in the juniors? There were 25% (25%) of the charts in uptrend and 56% (53%) 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	struggling to hold support line support
Metals and Mining	XMM	stronger
Energy	XEJ	continuing in uptrend

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Stocks	Code		Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N		stronger	HPA
Adriatic Resources	ADT		new high	zinc
Aeon Metals	AML		new low	copper + cobalt
Alacer Gold	AQG		new high	gold – production
Alkane Resources	ALK		breached support line - 1 for 8 issue at 55¢	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alicanto Minerals	AQI		new low	gold exploration
Allegiance Coal	AHQ		recovered back to highs	coal
Alliance Resources	AGS		heading lower after breaching support	gold exploration
Apollo Consolidated	AOP		at apex of a wedge	gold exploration
Arafura Resources	ARU		breached downtrend	rare earths
Argent Minerals	ARD		down	silver
Aurelia Metals	AMI		testing downtrend	gold + base metals
Australian Potash	APC		down	potash
Australian Mines	AUZ		base forming	cobalt/nickel
Australian Vanadium	AVL		new low	vanadium
BHP	BHP		rising after downtrend breached	diversified, iron ore
Base Resources	BSE		down	mineral sands
Bathurst Resources	BRL		down	coal
BBX Minerals	BBX		heavy fall, then rallied	gold exploration
Beach Energy	BPT		risen through resistance line	oil and gas
Beacon Mining	BCN		breached downtrend	gold production
Bellevue Gold	BGL		breached support, downtrend	gold exploration
Berkeley Energia	BKY		in secondary downtrend	uranium
Blackstone Minerals	BSX		shallower uptrend	nickel
Bounty Coal	B2Y		still in downtrend	coal
Breaker Resources	BRB		down	gold exploration
Broken Hill Prospecting	BPL		in a wedge on support line	minerals sands
Buru Energy	BRU		turning down	oil
Buxton Resources	BUX		testing downtrend	nickel exploration
Capricorn Metals	CMM		consolidating 5 into 1	gold
Cardinal Resources	CDV		down	gold exploration
Cassini Resources	CZI		softer	nickel/Cu expl.
Central Petroleum	CTP		down	oil/gas
Chalice Gold	CHN		ST downtrend commencing	gold exploration
Chase Mining	CML		heavy slump	nickel/copper/PGE
Chesser Resources	CHZ		sideways at highs	gold exploration
Cobalt Blue	COB		sideways	cobalt
Dacian Gold	DCN		turning down on LT resistance line	gold
Danakali	DNK		drifting lower	potash
Davenport Resources	DAV		broken lower, then rally	potash
Ecograp (was Kibaran)	EGR		new low - was Kibaran	graphite
Egan Street Resources	EGA		under takeover offer, but weaker	gold

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Emerald Resource	EMR		gentle downtrend	gold
Evolution Mining	EVN		approaching support line in ST downtrend	gold
Exore Resources	ERX		higher for placement then slump	gold exploration
FAR	FAR		new low	oil/gas
First Graphene	FGR		short term down	graphene
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		slump	lead
Galilee Energy	GLL		downtrend forming	oil and gas, CBM
Gold Road	GOR		testing downtrend	gold
Graphex Mining	GPX		drifting lower	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		down heavily	potash
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		breached downtrend	mineral sands
Image Resources	IMA		down	mineral sands
Independence Group	IGO		new high	gold, nickel
ioneer (was Global Geoscience)	INR		resting on support	lithium
Jervois Mining	JVR		sideways at lows	nickel/cobalt
Jindalee Resources	JRL		heavy fall	lithium
Karoo Gas	KAR		heading lower	gas
Kasbah Resources	KAS		new low	tin
Kin Mining	KIN		down again	gold
Kingston Resources	KSN		down	gold
Legend Mining	LEG		stronger	nickel exploration
Lepidico	LPD		down	lithium
Lindian Resources	LIN		Uptrend	bauxite
Lithium Australia	LIT		surged higher	lithium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		strong rally	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		down	gold exploration
MetalsX	MLX		new low	tin, nickel
Metro Mining	MMI		gentle uptrend	bauxite
Mincor Resources	MCR		continuing higher	gold
Musgrave Minerals	MGV		new high	gold exploration
Myanmar Minerals	MYL		new low	zinc
Nelson Resources	NES		recovering from lows	gold exploration
Neometals	NMT		continuing down	lithium
Resolute Minerals	RML		heavy fall (was Northern Cobalt)	cobalt
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		down heavily	gold
NTM Gold	NTM		new high	gold exploration
Oceana Gold	OGC		heavy fall	gold

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Oklo Resources	OKU		stronger	gold expl.
Orecorp	ORR		drifting lower	gold development
Oro Verde	OVL		rising	rare earths
Orocobre	ORE		testing downtrend	lithium
Oz Minerals	OZL		uptrend	copper
Pacific American Holdings	PAK		at lows	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		down	gold
Panoramic Res	PAN		up - takeover bid	gold , nickel
Peak Resources	PEK		stronger	rare earths
Peel Mining	PEX		sideways	copper
Peninsula Energy	PEN		sideways	uranium
Pensana Metals	PM8		at lows	rare earths
Perseus Mining	PRU		new high	gold
Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		new uptrend forming	gold, silver, zinc
Polarex	PXX		breached uptrend	polymetallic exploration
Prodigy Gold	PRX		down	gold exploration
Ramelius Resources	RMS		heavy fall	gold production
Real Energy	RLE		new uptrend breached	gas
Red5	RED		less steep downtrend	gold
Red River Resources	RVR		now in secondary downtrend	zinc
Regis Resources	RRL		breached support	gold
Resolute Minerals	RML		heavy fall (was Northern Cobalt)	cobalt
Resolute Mining	RSG		down	gold
RIO	RIO		rising again	diversified, iron ore
Salt Lake Potash	SO4		down	potash
Saracen Minerals	SAR		breached uptrend	gold
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		down	gold exploration
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		down	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Spectrum Metals	SPX		falling from highs	gold exploration
Stanmore Coal	SMR		sideways through downtrend line	coal
Strandline Resources	STA		breaching downtrend	mineral sands
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		breached downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Vango Mining	VAN		breached uptrend	gold
Venturex	VXR		rallying from lows	zinc
Vimy Resources	VMY		sideways under LT downtrend	uranium

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West African Resources	WAF		down after breaching support	gold
Westgold Resources	WGX		breached uptrend	gold
Westwits	WWI		down	gold
Western Areas	WSA		on support line	nickel
Whitebark Energy	WBE		rising	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		down	gold exploration
Zinc Mines of Ireland	ZMI		breached uptrend	zinc
Totals	25%	35	Uptrend	
	56%	77	Downtrend	
		138	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	30	21.7%
Gold Exploration	20	14.5%
Oil/Gas	9	6.5%
Nickel	8	5.8%
Lithium	8	5.8%
Coal	7	5.1%
Zinc/Lead	10	7.2%
Mineral Sands	6	4.3%
Rare Earths	6	4.3%
Potash/Phosphate	5	3.6%
Copper	5	3.6%
Cobalt	3	2.2%

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Graphite	4	2.9%	
Tin	2	1.4%	
Iron Ore	3	2.2%	
Uranium	2	1.4%	
Bauxite	3	2.2%	
Vanadium	2	1.4%	
Silver	2	1.4%	
Diamonds	1	0.7%	
Other	2		
Total	138		

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