

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

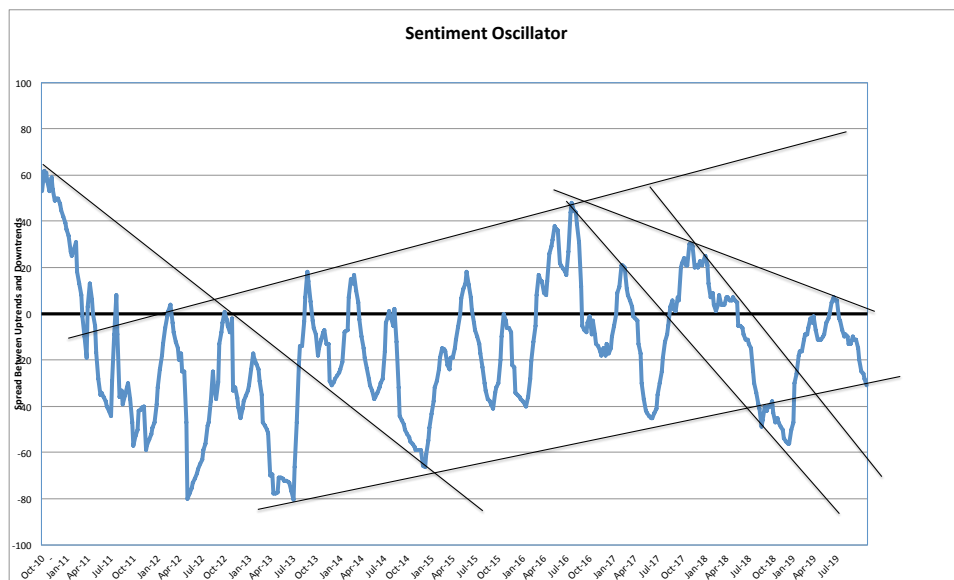
the amount of toxic gasses that have been released into the atmosphere and what impact this has on climate change. No-one seems to have bothered to do this , perhaps because it would help the climate change sceptics.

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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