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

FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

14 January 2017 *On Friday's Close* Analyst : Warwick Grigor

A bull market is declared as uranium stocks go ballistic

At the beginning of the week the newspapers told us that we are officially in a bull market, but what does that really mean? Is it a signal to go out and buy, or is it a commentary on what we have already done? The All Ords has risen about 1,000 points since January 2016. That is approximately 20% higher. It has recently breached a resistance line that goes back two years. At the moment it is in clear ground, but it is also showing vulnerability to pullbacks that could easily see it 200 points lower, as it started to do as the week progressed.

The emergence of the right wing in international politics is the real change in recent months. It is giving us room for optimism and a relief from the destructive policies of the left that have been more concerned with social issues than economics and growth. While investors are optimistic they will want to buy equities, but we need to balance this with the need to see delivery on the optimism. We need to see delivery on the promises or the market will give us more examples of pushing and pulling.

The biggest question mark over Australia, and the banks, is the growth in property prices over recent years. They can't keep rising at this pace, particularly if interest rates increase. If there is a reasoned and orderly exit by speculators we may find that the profits are switched into equities, which will take our market higher. However, if there is a mass exodus to get out at the top, there could be blood in the streets. That wouldn't be good for the market, or our banks. It could be challenging at best, and at worst, it would be ugly. Time will tell.

Resource companies that depend upon the international rather than the domestic economy offer some insulation to the local Australian economic outlook. If the world is a happy place our export companies will do well. Bulk commodities such as iron and coal will hold their own even if we have a property collapse. Copper and minerals sands should also do well. Generally the mining and oil sectors offer less downside and a better risk/reward ratio.

Gold has continued to improve over the week, adding weight to the view expressed last week, that the selldown has finished. Gold stocks have been performing accordingly.

Nickel stocks took a hit on Friday with news that the Indonesian ban on exports of unprocessed ore will be relaxed. News out of that country is always opaque, so let's wait for the real story.

Uranium price causes spurts in share prices

As the chart below shows, the rise in the spot uranium price has continued to climb. It is now US$6/lb higher, being 33% above the November low. The latest spurt comes with news that Kazakhstan, the world's largest producer of yellowcake, will cut production by 10%. While Paladin's future is under a cloud, some of the other uranium companies on the ASX have performed very well in recent days.

There are two other ASX-listed uranium producers. Peninsula Energy's market capitalisation has jumped to $168m in recent days, exceeding the $157m capitalisation of Paladin. Peninsula's in-situ mine in Wyoming has been mostly financed by equity with some shareholders providing convertible notes to supplement funding. Thus it doesn't face the debt burden that currently threatens Paladin.

We often forget ERA, as it is no longer mining and it now sources its mill feed from stockpiles. Failure to reach agreements with the Aboriginal groups means that it will close down completely within a few years, after more than $500m of rehabilitation expenditure. Notwithstanding the lack of a clear future, the share price has doubled over the space of a week to give it a market capitalisation of $350m.

The rest of the Australian uranium sector comprises companies that want to develop mines. The best performer of these has been Berkeley Energia (BKY), which has surged to a market capitalisation of $292m with the shares having risen 6x from the low in mid 2015. It recently raised US$30m at 45p in support of the development of the 100%-owned Salamanca uranium in Spain. Initial capital expenditure is estimated at US$95m for an operation that is aiming for 4.4 mill. lbs p.a. by 2021, but to achieve this target it will need additional injections of capital. It has locked in sales of two mill. lbs over five years at a price of US$43.78, offering a good margin over the expected operating costs of less than US$15/lb, but it needs more sales.

There is no doubt that the market likes BKY (particularly London, where the equity was raised). The numbers look good but for the next year at least the company will be going through the commissioning phase. If there are any mistakes they will be exposed. As I have frequently said, the commissioning phase is usually the most risky part of any project development. When a share price has run hard ahead of commissioning, it is an example of true believers getting over excited about the possibilities. Sentiment can quickly turn south in the event of commissioning problems, which invariably happen. That leaves the share price vulnerable to severe corrections when optimism turns into reality.

It is noteworthy that Anglo Pacific Group plc has recently offloaded a couple of million shares in BKY, selling down from 10.8% to 9.36% of the issued capital. Perhaps it is just being prudent with its funds management.

When metallurgy affects share prices

Share prices normally react to grades when companies release drill results but there is another factor that has to be considered even though it is often an afterthought; metallurgy. Yes, bad news on metallurgy can have a devastating effect on share prices. We saw how the Cardinal share price was butchered last year when gold recoveries were reported to be around 75%, on what was a low-grade orebody. There has just been another example of investors running for the hills with the announcement by Apollo Consolidated (AOP), but look further and investors don't seem too phased by the fact that Explaurum (EXU) has a "refractory" orebody that needs a process involving flotation, fine grinding and intensive leaching to achieve 85% recovery levels. The outlook might not be too bad once you take the time to consider the implications in each case.

… Apollo Consolidated

Apollo has been coming in with good aircore drill results at the Antoinette gold prospect in Cote d'Ivoire, with headline intercepts such as 17m at 22.5 gpt and 11m at 9.07 gpt. However, when it brought out bottle-roll tests for the fresh rock the share price was crunched by 35%. They came in at 61-77% recovery in five samples, leaving tails of 1.18 to 2.44 gpt in the residue.

The bottle-roll test is a quick method of determining the level of cyanide extractable gold in the sample. If results come in at better than 90% recovery you can cheer. If they are down below 80% you have to start thinking about more complex treatment and recovery processes.

Apollo's samples were ground to 85% passing <75 μm, which is a common grind size. Maybe a finer grind will give better recovery, though this will add to comminution costs. Maybe the tails can be re-ground and put through a specifically designed circuit for refractory ore. The fact that the starting grade is high will offer some insulation on the cost side so that the observation that there is a "refractory" component will not be a show stopper. At least the company has disclosed this information early in the game so that shareholders can take it onboard, unlike Ampella, which kept quiet on the metallurgy way too long.

… Cardinal Resources

The other gold stock that took a big haircut last year was Cardinal Resources (CDV), but how much of this was gut reaction and how much was warranted? At a glance you can draw some parallels with Perseus Mining, a $400m-size gold producer operating in Ghana. In 2015/16 its Edikan gold mine produced 153,000 oz p.a. at AISC of US $1,351/oz from throughput of 6.6 Mt treating 0.86 gpt ore. The remaining Measured and Indicated Resource at 30 June 2016, was 143 Mt at 1.1 gpt for 5 Moz of gold.

CDV has reported a resource of 110 Mt at 1.2 gpt for 4.1 Moz (0.4 gpt cut-off), but the fly in the ointment at the moment is initial metallurgical test work that gave recoveries of only 75-76%. The market capitalisation is hovering around $75m. Is this a show stopper? No.

CVD needs to optimise many aspects of its project. It needs to conduct in-fill drilling. It could lift the cut-off grade to 0.6 gpt to achieve a head grade of 1.4 gpt. The observation that 95% of the gold reports to a concentrate with only a 2-3% mass pull is a positive point and it leaves the door open to further processing to improve the overall gold recovery.

It is frequently said that mines aren't found, they are made. The orebody may well be found, but it takes engineering, optimisation and hard work to turn a discovery into a mine. We may find that Namdini is a classic example of this maxim.

Perseus's Edikan mine always talked about flotation and CIL leaching of the concentrates with recoveries in the mid 80% levels. It wouldn't have worked with simple CIL recovery alone. Have a look at the table below and Namdini actually looks relatively attractive, even before optimisation that could involve a higher grade starter pit with lower waste to ore ratios. It would be a fair bet to say that the CDV share price has fallen as low as it will. From this point on there is plenty of room for recovery.

		Edikan (Operating)	**Namdini** (Estimated)
Throughput		6.6 Mtpa	8.0 Mtpa
Head Grade		1.04 gpt	1.4 gpt
Recovery		83%	75%
Production p.a.		172,000 oz	248,000 pz
Strip Ratio		5.1:1	2.3:1
Cash Costs	Site	US$1,095/oz	
	AISC	US$1,388/oz	US$962/oz

Edikan number based on September Qtly Report
Namdini numbers based on Harleys Research released 9/11/16

FGR strengthening its hand with vein graphite off-take agreement

Some investors have been missing the point with FGR's activities in the vein graphite business, failing to appreciate that it is the control of the vein graphite supply that is critical. The Graphene Cell, which produced the best quality lowest cost graphene in bulk, works best with vein graphite that is found only in Sri Lanka. While the graphite can be sold at US$2,000, its conversion to graphene can lift the selling price by 10-20x. The key is the feedstock, and FGR can best suppress completion by getting as strong a grip on Sri Lankan material as possible. Hence the two year sales agreement announced yesterday, securing 100% of the premium grade graphite production from the government mine. It places FGR streets ahead of the competition.

Over the last 18 months there have been a number of junior companies saying that they have options or off take agreements over supplies from the government mine. Maybe they did, at some point, but none of them acted on these purported agreements so the government decided to cancel these and deal with a company that was serious about operations, not promotion. In steps FGR.

NTM Gold has the ground and the experience

We have added NTM Gold to our chart coverage this week. NTM is a WA-based gold explorer focusing on the 100%-owned Redcliffe Gold Project, covering 30 km of the highly prospective Mertondale Shear Zone to the NE of Leonora. The ground has been worked in a number of pits since the 1980s, by several companies that focused on the near surface oxidised zones. As an example, CRA mined 35,000 oz in the high grade Nambi Pit. Much of the Redcliffe ground is already covered by granted mining licences.

There is plenty of gold in the system. NTM has announced starting resources of 5.48 Mt at 1.57 gpt for 277,000 oz of gold mostly within 100m of the surface. This should be seen as an indicator rather than an outcome at this point. Further drilling at depth and in sand covered zones not properly tested previously should significantly expand the resources in 2017. To the south of Redcliffe, Kin Mining has the Mertondale and Cardinia gold deposits along with other regional holdings which host about 750,000 oz.

So, the geology is not unusual. It is well-understood by WA standards. There is a depletion zone in the first 10-20m, then an oxidised zone that can extend to vertical depths of 60-100m. There is frequently a 40m thick supergene zone. There will be lower and higher grade zones depending upon the location. Deeper gold bearing structures are likely to bear higher grade, but may be narrower. Drill results released this week included 4.5m at 7.35 gpt and 3.45m at 7.48 gpt, from depths of 181m and 280m respectively, in the Main Lode at Nambi. Thus there is potential for a deeper underground mine beneath the old CRA open pit.

Magnetic survey readings seem to offer guidance as to where the best gold might be. There is a 10 km strike of sand covered geology that hasn't really been tested, but magnetic surveys suggest there is something underneath.

So, it comes down to doing the work and drill testing for both extensions and new locations. It is almost procedural. The idea should be to add to resources, build the inventory, and then start a mine or see whether the Thunderbox and Gwalia plants want to do a deal on the ore so that NTM can monetise the gold.

Look at the share registry and you will see the names of some legendary stalwarts of the gold sector and the investment community, including quite a few of the "Kalgoorlie mafia" (who can obviously smell gold). Leading the charge is the "Butcher of Leonora", Keith Biggs. Keith is famous for getting onto Poseidon in the early days and discovering that you can make more money in the market than by cutting up lamb chops. He recently passed the hat around amongst his mates to raise money at 5¢ a share, thereby building the kitty to $25m to fund 20,000m of aircore and 4,500m of RC drilling in the coming months (and some diamond core drilling). The share price has drifted lower along with the gold price late in 2016, but that could soon change. It's one that should be on the radar.

Damaging article on Syrah

During the week I received an email that went into some detail on the merits, or lack thereof, of Syrah Resources. Any SYR shareholder that read it would have broken into a cold sweat. It has been a long held view of mine that the SYR story doesn't stack up, but once a stock gets some momentum behind it and buyers are being whipped into a frenzy by brokers and promoters, any analyst foolish enough to stand in the path of the running bulls will usually get trampled. Eventually the reality catches up and the share price turns down, but that can take years to happen. When it does it can turn very ugly. That is when the knives come out. Having said that, the shares have recently broken the downtrend in a rearguard action.

We have also added another cobalt stock to our coverage, Equator Resources (EQU). This has an interesting cobalt/nickel/copper project in Canada. There is historic production and recent high grade samples have been reported, but there is no resource yet. As with all cobalt plays the economics depends on more than just cobalt alone. This is an example of the another cobalt stock for the punters to play.

Sentiment Indicator: Sentiment improved again and it is now evenly poised. There were 32% (30%) of the charts in uptrend and 32% (35%) in downtrend.

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		sitting above the long term resistance line	
Metals and Mining	XMM		surge to new high	
Energy	XEJ		continues to improve	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		strongly higher, then heavy pullback	gold
Aeon Metals	AML		new high	copper + cobalt
Alacer Gold	AQG		rallied to hit resistance line	gold – production
Alkane Resources	ALK		nudging resistance line	gold, zirconia

Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		down again	phosphate
Alicanto Minerals	AQI		breached downtrend	gold exploration
Alltech Chemicals	ATC		rising	industrial minerals
Anova Metals	AWV		breached ST downtrend	gold
Antipa Minerals	AZY		back in downtrend	gold
Apollo Consolidated	AOP		crunched on preliminary metallurgical tests	gold exploration
Archer Exploration	AXE		breached downtrend	magnesite, graphite
Argent Minerals	ARD		new uptrend	polymetallic
Aspire Mining	AKM		nudging resistance line	coal
Atrum Coal	ATU		testing downtrend	coal
Aurelia Metals	AMI		breaching downtrend	gold + base metals
Auroch Minerals	AOU		improving	exploration
Aus Tin	ANW		down	tin, cobalt
Australian Bauxite	ABX		forming a wedge	bauxite
Australian Potash	APC		sideways through downtrend	potash
Australian Vanadium	AVL		rising gently	vanadium
Avanco Resources	AVB		rising	copper
AWE	AWE		testing downtrend	oil and gas
Azure Minerals	AZS		crunch down on Kennecott withdrawal	silver
BHP	BHP		on support line	diversified
Base Resources	BSE		rising	mineral sands
Bathurst Resources	BRL		correcting lower	coal
Battery Minerals	BAT		sideways	graphite
Beach Energy	BPT		steeply rise, but testing uptrend	oil and gas
Beadell Resources	BDR		rallied to hit resistance line	gold
Berkeley Resources	BKY		strongly higher	uranium
Blackham Resources	BLK		testing downtrend	gold
Broken Hill Prospect.	BPL		adjusted after Cobalt Blue distribution	minerals sands, cobalt
Buru Energy	BRU		testing downtrend	oil
Canyon Resources	CAY		testing downtrend	bauxite
Cardinal Resources	CDV		forming a base	gold exploration
Carnegie Clean Energy	CCE		surge to new high	wave energy
Cassini Resources	CZI		down	nickel/Cu expl.
Chalice Gold	CHN		holding uptrend	gold
Crusader Resources	CAS		downtrend	gold/iron ore
Dacian Gold	DCN		breached downtrend	gold exploration
Danakali	DNK		rising again	potash
De Grey	DEG		sideways	gold
Doray Minerals	DRM		down	gold
Duketon Mining	DKM		testing downtrend	nickel
Eden Energy	EDE		sideways	carbon nanotubes in concrete
Energia Minerals	EMX		strong rise	zinc
Equator Resources	EQU		strong rise	cobalt/nickel
Evolution Mining	EVN		testing downtrend	gold
Excelsior Gold	EXG		rallying	gold
Finders Resources	FND		breached uptrend	copper
First Australian	FAR		sideways to lower	oil/gas
First Graphite	FGR		testing ST resistance line	graphite
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		rising again	lithium
Galilee Energy	GLL		breached uptrend	oil and gas, CBM
Gascoyne Resources	GCY		rallied to hit resistance line	gold
Geopacific Res. Resources	GPR		breached downtrend	copper/gold exp.
Global Geoscience	GSC		breached downtrend	lithium
Gold Road	GOR		downtrend	gold exploration
Graphex Mining	GPX		breached downtrend	graphite
Heron Resources	HRR		new low	zinc

Highfield Resources	HFR		testing uptrend	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		back in downtrend	copper
Hot Chilli	HCH		testing downtrend	copper
Iluka Resources	ILU		rising	mineral sands
Image Resources	IMA		building a base	mineral sands
Independence	IGO		recovering with the gold price	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoon Gas	KAR		breached downtrend	gas
Kibaran Resources	KNL		breached support line	graphite
Kin Mining	KIN		breached uptrend	gold
Legend Mining	LEG		strong surge, then a slump	exploration
Lithium Australia	LIT		downtrend	lithium
Lucapa Diamond	LOM		recapturing uptrend	diamonds
Macphersons Res.	MRP		down	silver
Medusa Mining	MML		still in long term downtrend	gold
MetalsX	MLX		downtrend	tin, nickel
Metro Mining	MMI		rising	bauxite
Mincor Resources	MCR		down	nickel
Mineral Deposits	MDL		rising again	mineral sands
Mustang Resources	MUS		at lows	diamonds, rubies
MZI Resources	MZI		still in downtrend	mineral sands
Northern Minerals	NTU		breaching uptrend	REE
Northern Star Res.	NST		rallied to hit resistance line	gold
NTM Gold	NTM		breached uptrend	gold
Oceana Gold	OGC		breached downtrend	gold
Oklo Resources	OKU		breached downtrend	gold expl.
Orecorp	ORR		breached downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		strongly higher	lithium
Oz Minerals	OZL		another new high	copper
Paladin Energy	PDN		rallied to hit resistance line	uranium
Pacific American Coal	PAK		breached downtrend	coal, graphene
Pantoro	PNR		new high	gold
Panoramic Res	PAN		rising wedge	nickel
Paringa Resources	PNL		strong recovery	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		another strong rise	uranium
Perseus Mining	PRU		rallying	gold
Pilbara Minerals	PLS		breached downtrend	lithium/tantalum
PNX Metals	PNX		strong surge	gold, silver, zinc
Potash West	PWN		falling	potash
Red River Resources	RVR		still in uptrend	zinc
Regis Resources	RRL		rallied to hit resistance line	gold
Resolute Mining	RSG		breached resistance line	gold
Reward Minerals	RWD		strong rise	potash
Rex Minerals	RXM		sideways	copper
RIO	RIO		still strong	diversified
RTG Mining	RTG		breached support line	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		strong rally	gold
St Barbara	SBM		breached resistance line	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		down	silver
Santos	STO		rising	oil/gas
Sheffield Resources	SFX		rising again	mineral sands
Silver Lake Resources	SLR		rising	gold

Silver Mines	SVL		down	silver
Sino Gas & Energy	SEH		rising	gas
Southern Gold	SAU		steep rise	gold
Stanmore Coal	SMR		breached steep uptrend and turning down	coal
Sundance Energy	SEA		new uptrend confirmed	oil/gas
Syrah Resources	SYR		breaching downtrend	graphite
Talga Resources	TLG		sideways	graphene
Tanami Gold	TAM		breached uptrend	gold
Teranga Gold	TGZ		surge through downtrend	gold
Tiger Realm	TIG		surging higher	coal
Tiger Resources	TGS		breaching downtrend	copper
TNG Resources	TNG		breached uptrend	titanium, vanadium
Torian Resources	TNR		down	gold expl'n
Toro Energy	TOE		continuing to rise	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		down	gold exploration
Vimy Resources	VMY		downtrend breached	uranium
West African Resources	WAF		testing downtrend	gold
Westwits	WWI		ST downtrend but rally on Friday	gold exploration/development
Western Areas	WSA		crunched on Friday	nickel
White Rock	WRM		breached downtrend	silver
Whitehaven Coal	WHC		heavy correction	coal
WPG Resources	WPG		bounced off lows	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	32%	46	Uptrend	
	32%	46	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	33	23.1%	
Copper	14	9.8%	
Gold Exploration	13	9.1%	
Oil/Gas	9	6.3%	

Weightings of Sectors Represented in the Company Charts			
Potash/Phosphate	**7**	**4.9%**	
Mineral Sands	**7**	**4.9%**	
Graphite	**6**	**4.2%**	
Zinc	**5**	**3.5%**	
Silver	**6**	**4.2%**	
Lithium	**5**	**3.5%**	
Nickel	**5**	**3.5%**	
Uranium	**5**	**3.5%**	
Coal	**10**	**7.0%**	
Tin	**2**	**1.4%**	
Bauxite	**3**	**2.1%**	
Iron Ore	**1**	**0.7%**	
Diamonds	**2**	**1.4%**	
Other	**10**		
Total	**143**		