

## Good news flow from the junior gold sector

The lack of significance of the coronavirus with respect to global equity markets has been demonstrated by yet another record high in the US. The virus still doesn't feature highly in the big picture, though Australia is more exposed to its economic effects due to its dependency on China for many aspects of trade.

The strength in the Dow and NASDAQ markets is not, as some people might say, because these markets are "cheap". It would be delusional to think that fundamentals alone will take the market higher. The real reason for the long term strength in the Dow (apart from the interest rate thematic) is that investors know there is a safety net provided by The Fed and US Government policy.

Alan Greenspan was big on understanding the psychological effects of the Dow and the impact on consumer sentiment. He saw that consumer and investor confidence needs to be nurtured in order for the US economy to stay strong. His primary tool was monetary policy and he was always ready to use this in times of pressure in equity markets. Still, his legacy continues to dominate the thinking of the Fed today. Analysts and commentators will always seek to anchor market movements in fundamentals but at the end of the day, the politics surrounding strong equities markets is the underlying game. An appreciation of this view is essential in making sense of the long term bull market in the US.

The Australian equity markets are different in their own localised ways, especially when commodity prices movements have their influence, but in a general sense they are falling into line with the same status as in the US equity markets, with respect to confidence. Add to this the state of the housing market and the huge collective investment in this sector, and you see what are clearly the most important influences. It is all about the big picture. This detracts from the need for micro-analysis and individual company assessments somewhat, as it is all about big money flows.

Having said that, this publication is very much concerned with merits of individual companies within the mining and resources sector.

### *Good news flow from the junior gold sector*

Good news continues to flow from the gold juniors and the market is showing a willingness to embrace such news when it comes along. There is more life in the market compared to the December quarter. Have a look at ASX releases covering drill results from companies like Alkane Resources, De Grey Mining, Oklo Resources and Sky Metals. The \$208m takeover bid for Spectrum Metals by Ramelius Resources shows that there are corporate buyers willing to swoop on exploration companies that have been successful. Here, a gold resource of 799,000 oz at 13.8 gpt is an attractive pot of gold at the Penny West project.

### *Lachlan Fold Belt gaining more attention*

The Lachlan Fold Belt (LFB) is one of the richest geological environments in NSW and Australia, traditionally known for many deposits of gold, copper, tin and other metals. However, it frequently gets overlooked by investors notwithstanding a number of world class mines at places like Cadia and North Parkes. Gold in copper porphyries is a sweetener that puts it on the global map.

We have been seeing some recent excitement in the LFB starting with Alkane's 331m hit at 0.28 gpt from surface, at the Boda prospect. A prior hole returned 507m at 0.48 gpt and 0.2% Cu from 211m. The Company's presentation at the Sydney Mining Club put a rocket under the share price recently, spiking up to hit 90¢ on Friday 7th February. The following Thursday they peaked at \$1.16.

On Monday last week, Sky Metals came out with a very impressive intercept of 93m at 4.24 gpt from its Hume Prospect in the Cullarin Project, not far from Goulburn in NSW. Two diamond holes were drilled to give deeper perspectives on mineralisation drilled by earlier parties that had historically proved interesting, but inconclusive. They had been testing for VMS-style geology, but Sky is after something different; McPhillamy's style gold mineralisation (60 Mt at 1.05 gpt, for 2 Moz) at a lower stratigraphic levels. Hitting 14m at 20.2 gpt within the abovementioned broad intercept has been a great result for Sky, upgrading its gold expectations.

When Sky first listed in mid-2019, its presentation opened up with its tin projects at Tallebung and Doradilla. Now tin has not been very kind to ASX investors in recent years, so it is hard to generate FOMO for this metal. Hence the deal in October, whereby Sky announced a farm-in to earn 80% of Heron's ground, spending \$400,000 in year one and issuing 10 million options exercisable at 15¢. It then has to spend \$1.6m within 36 months of commitment. Herron will be free-carried for the first \$10m of expenditure.

Whereas the ground has traditionally been seen as a base metals play going back many decades, this recent gold hit is going to change people's views. Keep an eye on it.

### *Big River (nee Crusader) is another company with a large tonnage-low grade gold project*

We recently considered the merits of large tonnage, low grade gold deposits such as those being advanced by Capricorn Metals, Breaker Resources and Saturn Metals. One gram orebodies can deliver revenues in the order of \$75 pt, providing a good margin for efficient, low cost gold mines.

Extending the vision beyond WA and into South America, we see that Crusader Resources has re-born itself as Big River Gold (BRV) following a near death experience when it went to London to try and raise money. A new name and new management might bring success this time.

Big River's objective is to construct a US\$93m, 2 Mtpa gold mine in 2020, producing 71,000 oz p.a. at the Borborema Gold Project.

However, there is a big difference between Big River and the other three companies; the project is in Brazil, which continues to be a difficult country for Australian juniors with many of them failing to progress to successful mines. Many have stumbled and fallen. It is difficult to say exactly why as the resources and grades have often been attractive. Perhaps the cultures and regulatory environments are too different.

The numbers for Borborema look sound, based on a 2.43 Moz open pit resource grading 1.1 gpt. Figures include a waste to ore ratio of 4.1:1, a head grade of 1.22 gpt and 93% recovery, low power costs of US\$0.08/kWh, C1 cash costs of US\$642/oz and AISC costs of US\$839/oz. The Corporate tax rate of 15.25% for the first 10 years is attractive, as is the low royalty of 1.5%. So, why has it been on the drawing boards for so long?

The next step will be to raise around US\$100m in order to fund the development, and then we will see just how well it is constructed and commissioned. The market capitalisation is currently around \$30m, which is modest.

### *Kingwest aiming to revive the Menzies Goldfield*

Kingwest was a small gold IPO in August 2018, listing on tenements near Leonora, having raised \$5m. The shares drifted below the 20¢ issue price for a while, hitting a low of 13¢ in June 2019. Two months later the share price spiked to 28.5¢, but has since fallen back to 15¢ before spiking again last week.

The Q3 2020 run in the price coincided with the acquisition of a package of tenements at Menzies, in September 2019. Consideration was \$8m in cash and shares over 18 months, with the final payment of \$1.65m due in Q1 2021. As the vendor, Horizon Minerals has become the largest shareholder with 19.9% of the issued shares.

Menzies is an old gold mining centre 120 km drive north of Kalgoorlie that comes across the radar from time to time, but no-one has had a decent crack at it recently. Companies such as Julia Mines and Intermin Resources have had limited success in the last 20 years and useful gold has been produced, but there is still plenty more left in the ground.

Looking at the presentation we can see that there were a number of old mines with the most sizeable one having closed in the 1930s. Historical production in the area was 800,000 oz at 19 gpt, including 650,000 oz at 22.5 gpt from underground mines prior to 1950, and 150,000 oz at 2.6 gpt from open pits in the 1990s. As an example, records indicate that the Lady Shenton mine produced 185,000 t at 32 gpt, for 191,000 oz of gold, to vertical depths of about 230m.

The business model for Kingwest is quite simple; go in and test for undiscovered near surface ore along the line of workings, and drill at depth below old pits and shafts to find extensions. Then, depending upon how much gold is defined, KWR will find the best way to monetise it. Most likely this will be by sale of ore to nearby plants such as Paddington, or toll treatment.

Open pit material may be in the order of 2 gpt, but the real target is the high grade underground gold. This is likely to be in quartz veins with narrow widths of 1-2m, but the

grade is expected to be high. A drill hole at Lady Shenton in 2019, returned an intercept of 1.5m at 14.3 gpt, giving an indication of what can be expected (though the Company will suggest that grades could be higher).

Drilling over the next four months will comprise 4,000m and 5,000m of diamond and RC drilling, respectively. The target zone will be at depths of 150-500m vertically, with maybe another few thousand metres drilled into new exploration targets.

There is probably about 250,000 oz of gold (including 200,000 JORC compliant) that you can eyeball at Menzies and Goongarrie, 40 km south of Menzies, but the company is not allowed to talk about these (ASX regulations). We can talk about these resources but not the Goongarrie Lady Feasibility Study results. Ultimately there is the potential for 400,000 oz of open pit gold and 250-500,000 underground ounces, but this will depend upon drilling success.

In recent times there has been greater sharemarket acceptance of narrow, high grade gold projects in WA. Maybe this is because operators have been having greater success with these types of projects, or maybe it is because any gold is good in these times of high prices. Gone are the days when a company had to be a 100,000 oz producer to be taken seriously.

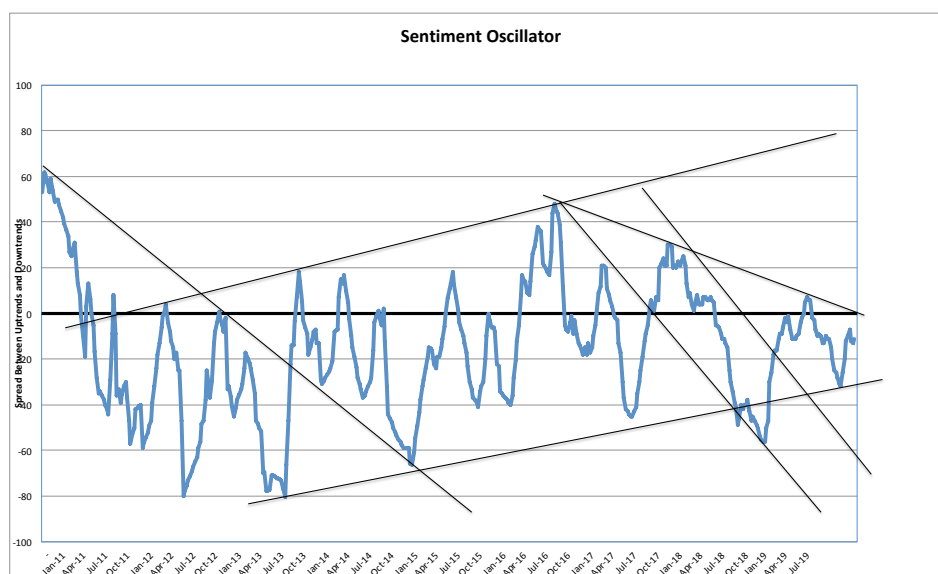
The biggest challenge for narrow vein projects is achieving acceptable tonnes per vertical metre and/or ounces per vertical metre (opvm). Both measures have an impact on how many ounces can be mined in a 12 month period. If the figure is only 500-700 opvm it can be challenging to turn a profit. We will be able to work this out at Menzies when we have more data relating to physical dimensions and grades.

Apart from Horizon, the next largest shareholder is the Canadian fund, 1832. Having an intelligent dedicated mining investor on the register is good while the Company kicks goals and keeps enthusiasm strong, but this type of shareholder has the potential to dump shares if it changes its view. Nevertheless, we can take encouragement from the fact that it likes the story now.

Cash levels are down to about \$1m, so we can expect a placement in the near term to fund the drilling plans. At 15.5¢ the market capitalisation was about \$14m, but the spike to 20¢ last week has increased this figure by 30%. Was this spike because the roadshow was well received, or has it something to do with an impending capital raising? Hmm. We will see. In any event the capitalisation suggests that the market believes the Company has some substance. This is a legitimate exploration gold play that is likely to attract speculative interest in the coming months, once it is funded and the drilling starts. We will add it to our coverage.

We have deleted Berkely Energy from our chart coverage and added Kingwest and Sky Metals.

*Disclosure: No material interest in stocks covered in this Weekly.*



**Sentiment Oscillator:** The market sentiment was steady week with 30% (29%) of the charts in uptrend and 41% (41%) in downtrend on Friday's close. The improvement came about due to a number of stocks moving out of downtrends and into sideways patterns, as the selling had exhausted itself.

### 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	heavy correction	
Metals and Mining	XMM	new recent high	
Energy	XEJ	breached uptrend	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	new high	HPA
Adriatic Resources	ADT	breached steep uptrend	zinc
Aeon Metals	AML	breached downtrend	copper + cobalt
Alacer Gold	AQG	testing uptrend	gold – production
Alkane Resources	ALK	surge on Roswell resource	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alicanto Minerals	AQI	testing downtrend	gold exploration
Allegiance Coal	AHQ	on support line	coal
Alliance Resources	AGS	sideways	gold exploration
Apollo Consolidated	AOP	surge higher	gold exploration
Arafura Resources	ARU	testing uptrend	rare earths
Argent Minerals	ARD	breached downtrend	silver
Aurelia Metals	AMI	testing downtrend	gold + base metals
Australian Potash	APC	breached downtrend	potash

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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		testing downtrend	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		testing uptrend	gold production
Bellevue Gold	BGL		rallied to meet resistance line	gold exploration
Blackstone Minerals	BSX		new high	nickel
Bounty Coal	B2Y		still in downtrend	coal
Breaker Resources	BRB		down	gold exploration
Broken Hill Prospecting	BPL		up from lows	minerals sands
Buru Energy	BRU		turning down	oil
Buxton Resources	BUX		turned down at resistance line	nickel exploration
Capricorn Metals	CMM		rising	gold
Cardinal Resources	CDV		breached downtrend	gold exploration
Cassini Resources	CZI		testing downtrend	nickel/Cu expl.
Central Petroleum	CTP		down	oil/gas
Chalice Gold	CHN		new recent high	gold exploration
Chase Mining	CML		heavy slump	nickel/copper/PGE
Chesser Resources	CHZ		new high	gold exploration
Cobalt Blue	COB		stronger	cobalt
Dacian Gold	DCN		testing uptrend	gold
Danakali	DNK		drifting lower	potash
Davenport Resources	DAV		at lows	potash
Ecograf (was Kibaran)	EGR		rallying	graphite
Emerald Resource	EMR		gentle downtrend	gold
Evolution Mining	EVN		testing downtrend	gold
Exore Resources	ERX		sideways to lower	gold exploration
FAR	FAR		new low	oil/gas
First Graphene	FGR		breached downtrend	graphene
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		breached downtrend	lithium
Galena Mining	G1A		breached steepest downtrend	lead
Galilee Energy	GLL		downtrend forming	oil and gas, CBM
Gold Road	GOR		steeply higher	gold
Graphex Mining	GPX		testing downtrend	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		ST uptrend	potash
Hillgrove Resources	HGO		still in downtrend	copper
Iluka Resources	ILU		slump out of downtrend then rebound	mineral sands
Image Resources	IMA		still in downtrend	mineral sands
Independence Group	IGO		new high	gold, nickel

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ioneer (was Global Geoscience)	INR		testing support	lithium
Jervois Mining	JVR		meeting resistance line	nickel/cobalt
Jindalee Resources	JRL		at apex of flag	lithium
Karoon Gas	KAR		breached downtrend	gas
Kasbah Resources	KAS		new low	tin
Kin Mining	KIN		new low	gold
Kingston Resources	KSN		down	gold
Kingwest Resources	KWR		downtrend	gold
Legend Mining	LEG		stronger	nickel exploration
Lepidico	LPD		down	lithium
Lindian Resources	LIN		pullback	bauxite
Lithium Australia	LIT		surged higher	lithium
Lucapa Diamond	LOM		off its lows	diamonds
Lynas Corp.	LYC		strong rally	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		breached downtrend	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		breached downtrend	zinc
Nelson Resources	NES		falling again	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		strong higher	gold
NTM Gold	NTM		new high	gold exploration
Oceana Gold	OGC		breached steepest downtrend	gold
Oklo Resources	OKU		stronger	gold expl.
Orecorp	ORR		continuing higher	gold development
Oro Verde	OVL		rising	rare earths
Orocobre	ORE		breached downtrend	lithium
Oz Minerals	OZL		uptrend breached	copper
Pacific American Holdings	PAK		testing downtrend	coal
Pacifico Minerals	PMY		down	silver/lead
Pantoro	PNR		down	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		down	copper
Peninsula Energy	PEN		sideways	uranium
Pensana Metals	PM8		at lows	rare earths
Perseus Mining	PRU		new high	gold
Pilbara Minerals	PLS		but strong rally	lithium
PNX Metals	PNX		sideways	gold, silver, zinc

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Polarex	PXX		breached uptrend	polymetallic exploration
Prodigy Gold	PRX		down	gold exploration
Ramelius Resources	RMS		breached ST downtrend	gold production
Real Energy	RLE		new uptrend breached	gas
Red5	RED		breached downtrend	gold
Red River Resources	RVR		now in secondary downtrend	zinc
Regis Resources	RRL		testing downtrend	gold
Resolute Minerals	RML		heavy fall (was Northern Cobalt)	cobalt
Resolute Mining	RSG		testing downtrend	gold
RIO	RIO		rising again	diversified, iron ore
Salt Lake Potash	SO4		down	potash
Saracen Minerals	SAR		testing downtrend	gold
St Barbara	SBM		still in shallow downtrend	gold
Sandfire Resources	SFR		sideways	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		rising again	gold exploration
Sheffield Resources	SFX		down	mineral sands
Sky Metals	SKY		surged higher	gold exploration
St George Mining	SGQ		sideways through downtrend line	nickel
Sipa Resources	SRI		down	general exploration - Ni,Cu, Co, Au
Spectrum Metals	SPX		back in uptrend	gold exploration
Stanmore Coal	SMR		down again	coal
Strandline Resources	STA		sideways	mineral sands
Syrah Resources	SYR		down again	graphite
Talga Resources	TLG		breached downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Vango Mining	VAN		breached uptrend	gold
Venturex	VXR		strong rally, hit resistance line	zinc
Vimy Resources	VMY		new low	uranium
West African Resources	WAF		down after breaching support	gold
Westgold Resources	WGX		shallower uptrend	gold
West Wits Mining	WWI		new uptrend following US finance	gold
Western Areas	WSA		breached 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		down	zinc
Totals	30%	41	Uptrend	
	41%	56	Downtrend	
		138	Total	

## Guides to Chart Interpretations

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- 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	21	15.2%	
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%	
Graphite	4	2.9%	
Tin	2	1.4%	
Iron Ore	3	2.2%	
Uranium	1	0.7%	
Bauxite	3	2.2%	
Vanadium	2	1.4%	
Silver	2	1.4%	
Diamonds	1	0.7%	
Other	2		
<b>Total</b>	<b>138</b>		

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