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

17 August 2019 Charts on Friday's Close Analyst : Warwick Grigor

Markets let off steam as we focus on Alpha HPA and Bellevue Gold

On Wednesday night the Dow fell by more than 3% and the gold price jumped by more than $20/oz at one point, in response to the yield curve inverting. That was all everyone talked about for the rest of the week. As we are advised by historians, an inverted yield curve points to a recession 1-2 years out. So, pangs of fear caused the sell button to be pushed.

There are two observations worth making. The first is that there is always the opportunity for governments and central banks to change direction in order to steer away from a recession. Being forewarned is being forearmed. In recent years we have seen governments and central banks take action to prevent economic disasters, even if this is against the advice of some economists and commentators who warn about increasing debt and QE. Recent economic policy has been based on band-aid after band-aid ever since the GFC.

The second point is that 1-2 years is a longer time frame than what 90% of investors can tolerate. This week the fear factor has drive prices one way, but next week the news flow could drive prices the other. Remember that in the lead up to the GFC we had plenty of warning. Commentators were laying the cards on the table more than 12 months in advance of the real meltdown, yet, most people ignored or discounted these warnings until the last minute.

So, the most likely market sentiment, until there is a consensus that a recession has been averted or is definite, will be the volatility that comes with differing opinions. The markets can't shut down while it sits and waits to see if a forecast is accurate. People need to make money on a regular basis if they are going to stay in business.

Gov't policy is for a perpetuation of the bull market

A further point is that the long-running US equites bull market has almost become government policy. Its duration has defied history on a number of occasions when you would have logically suggested it should turn down. That doesn't mean that it will never turn down and enter a bear market again, but we have seen a number of severe, quick corrections from which it successfully rebounded. We have previously suggested that this may be part of a lengthy topping of the market that could take years to play out. It is reasonable to expect more of the same.

Bellevue Gold - unlocking the key to more discoveries

As we mentioned last week, Bellevue Gold is shaping up as one of the most exciting new gold plays in WA. We first looked at it about two years ago when it had a market capitalisation of $13m, and it was still called Draig Resources (DRG). Since then it has been one of the best performing juniors, with the share price rising by > 10x.

Well-funded by the market

Bellevue has been an active capital raiser over the past two years, showing that the money is available if the company and project is worth it. Placements that have raised a total $70m over the last two years have been;

- $3.3m at 5¢ - August 2008
- $5m at 20¢ - November 2017
- $8m at 20¢ - March 2018
- $15m at 34¢ - October 2018
- $20m at 55¢ - February 2019
- $18.5m at 57¢ - July 2019

The market capitalisation has increased from $13m to more than $300m over the same time frame, rising from 5¢ to a recent high of 73.5¢. It has been a win-win for all involved. However, there has been some softness in the price since mid June. Was it because of the placement undertaken in July? The shares seem to have largely missed out on the run on gold stocks in the last week or two. Maybe that mean that trading has been dominated by profit-takers who believe that it has risen too hard i.e. the stock has maxed out. Let's have a closer look to see where its can go from here, with 1.8 Moz at 11.1 gpt already in the bag.

Initially it was about extensions of the orebody, but …

The initial plan was to drill for the faulted extension of the old Bellevue mine that produced 800,000 oz at 15 gpt back in the 1980s and 1990s. At the time it was one of the most profitable gold mines in Australia. The previous operators, Queen Margaret Gold Mines and Spargos Exploration, abandoned the mine in 1997, as mining conditions became less favourable near the underlying fault, and exploration had not easily identified the faulted extension.

Bellevue hasn't been the first company to promote itself on the concept of finding the faulted extension of an orebody. Many companies have tried and failed, but Bellevue stands out as an exceptional success story.

… Bellevue has found something more significant

Interestingly though, most of the 1.8 Moz found have not technically been located in the faulted extension. Bellevue has actually discovered a more complicated but productive geological setting of which the original Bellevue Mine constitutes just a portion. Therein lies the opportunity for much more gold than the 1.8 Moz announced so far.

Rather than a simple orebody that extends to the bowels of the earth, it has revealed a system of conjugate faults through which gold mineralisation has flowed and hosted multiple orebodies. We are talking about an extensive system here, not just discrete orebodies.

It has found the key to further discoveries

A major factor in Bellevue's exploration success has been the recognition that initial drilling of widely spaced exploration holes on 250m centres, followed by downhole EM surveys, can greatly assist in pinpointing the location of the high grade lodes within a lower grade environment. This makes exploration much more focused and less risky than otherwise would have been the case. Previous owners had drilled some interesting holes, with good intercepts, but they couldn't make much sense of them with the techniques they were using.

In November 2017, Bellevue announced a new discovery with a 7m intercept of 29 gpt at Tribune. That resource has now been estimated at 1 Mt at 8.1 gpt for 300,000 oz. Structurally, this appears to be in a similar shear setting to the original Bellevue lode. Further east, and deeper than the Bellevue lies Deacon, also in similar structural setting. This doesn't have a resource yet and it is deeper at around 600m, but there is speculation that this could be the depth extension that the Company was originally seeking. It has a a strike of about 1,000m and has already turned up an impressive intercept of 3.6m at 18.3 gpt. Deacon has the potential to deliver another million ounces of gold.

The Company has also discovered more flat-lying lodes such as those at Vlad and Viago. The latter is already up to 1.3 Mt at 16 gpt for 700,000 oz. These structures will provide greater, more profitable ounces per vertical metre but this may be offset to some extent by lower extraction rates due to different mining methods, such as room and pillar or cut and fill.

So, we are seeing that a mining operation could be accessing multiple high grade orebodies in close proximity to one another. Importantly, Bellevue has figured out the architecture of where these orebodies do, and should lie. Building the inventory of ounces from these levels should not be a difficult task.

To sell or develop - which will give shareholders the best returns?

There has been suggestions from some quarters that the Company should just drill up a substantial gold resource and on-sell it to a mining company for the development phase, but that might not be the best profit making approach. If the ground is as rich as it seems, and there is eventually 3-5 Moz, an operating mine could achieve a much greater price. There is nothing about this project that suggests it will be difficult to develop or expensive to operate. The orebodies are hosted by very competent basalt country rock. The Viago and Deacon discoveries are located only 120m and 300m from existing underground development.

The previous underground mine operated at about 260,000 tpa, trucking ore to the surface in 20 tonne trucks via a 4 x 4.5m decline. Thought will be given to opening this up to a 5 x 5m size to enable larger equipment and higher throughput. Mechanised mining widths were previously employed, in the range of 2-4m. This is a good guide for a restart. Having a granted mining lease will make any development easier to permit.

Six rigs turning now

There are six diamond drill rigs working at present. Two are doing in-fill holes, two are working on incremental step-outs and two are drilling more adventurous step-out holes. The Company is giving thought to dewatering the old workings with a view to conducting closer spaced drilling from underground for the the proving of mining reserves. This exercise is likely to enhance interest from potential suiters and confidence levels will improve with closer spaced data.

What is a fair valuation?

Given the very strong A$ gold price, and the high grade tenor of the Bellevue orebodies, you would expect a valuation would give you top dollar. With a market capitalisation of $300m (net of cash) we get an in situ value of A$160/oz. If the mine operated at a cash margin of A$1,000/oz, which is possible with the high grades, it would generate over a billion dollars of free cash if you assume 60% recovery of the 1.8 Moz. What if the resource doubles, which is a distinct possibility? That could lead to a doubling of the share price if you use the A$160/oz valuation.

Where the share price will go depends upon how much more gold is found, what the gold price is doing, and whether a corporate raider wants to make a move. The shares are drifting a little just now, but that doesn't mean the show is over. Wild speculation is quietening down and the aggressive punters may be exiting to find the next 10 bagger, but the risk profile is falling and Bellevue is emerging as a legitimate institutional gold stock. It is difficult to find a better story in the gold sector just now.

Alpha HPA - re-defining the HPA cost base

Last week Alpha (A4N) hosted a site visit in Brisbane to a group on brokers and investors, to demonstrate the pilot plant for its innovative method of making HPA (high purity alumina). A year ago it was working at bench scale but it now has a fully functional demonstration plant from which it to proposes to scale up to a commercial scale plant.

Why build a mine of you don't have to?

Alpha started out on the HPA trail from the point of view of a mining company with the Collerina nickel/cobalt project, 40 km SE of Nyngan in NSW. However, late in 2018, Alpha did a quick shimmy when it realised that it didn't actually need to use Collerina ore to make HPA. Rather than gather pregnant leach solution from the acid leaching of Collerina ore, it discovered that a readily available 5-6% Al industrial feedstock could be a much more elegant source of raw material. Thus it could avoid the capex, the time, the inconvenience and the complexity of developing a mine.

What is HPA used for?

HPA is not something most punters are familiar with, so let's start with a simplified explanation of why it is important. While the pelletised form has a number of uses when converted to synthetic sapphire, such as scratch proof glass and in the manufacturing of LED lighting and semiconductor substrates, the exciting growth curve comes from its application as a coating for separators in lithium-ion batteries. Competent separators are essential in the battery design and these must have effective coatings that allow ionic exchange whist provide thermal stability, that prevents runaway fires. HPA (Al_2O_3) is the best ceramic material for such a coating, in a thickness of 2-3μm. The greater the purity of HPA, the more effective it is at its task and the longer the life of the battery.

Purity and shape determine the price and demand

On the subject of purity, it is interesting to see the great lengths that manufacturers will go to in order to remove impurities (trace elements such as iron, magnesium and sodium) to achieve the 4N (99.99%) standard. This material sells for US$15-30,000 pt, whereas 99.9% (3N) HPA sells for US$5-15,000 tpa. It is the 4N market that Alpha will be focusing on.

The shape of the HPA powder crystal is also an important factor. Customers want a rod or "dog bone" shape rather then spherical in order to achieve the best coatings of the separators. Alpha seems to have the flexibility to provide this shape and therefore achieve a premium product.

Simplicity of the process is the key

Under current HPA production methodology, HPA is made from aluminium metal feedstock or from hydrochloric acid leaching of kaolin clay. The latter methodology is believed to cost twice as much to make HPA as Alpha's SX method. The kaolin process is also much more complex with a greater operational risk that involves high pressure and hydrochloric acid. The SX process is conducted at atmospheric pressure without the use of dangerous acids.

What more is involved?

The PFS released in February 2019, disclosed unit cash costs of US$5,123 pt (after by-product credits) and capex of US$149m. At HPA prices of US$25,000 pt it forecasts annual cash generation of US$199m p.a. Sensitivity analysis show that it will be strongly profitable at prices half of the above.

In July 2019, Alpha announced the commencement of pilot plant operations with initial solvent extraction (SX) recovery of high purity aluminium salt, producing 22 kg per day of crystalline material peaking at grades of 99.996% purity. The next step, being undertaken now, involves the refining of this crystal product to produce HPA.

As with any project of this size there are still a number of hurdles to overcome and patience is still required. Continued successful pilot plant operations will be needed to produce samples for potential buyers with the securing of offtake agreements being a critical milestone, as will be the securing of finance. The Company's timetable calls for construction commencing in Q4 of 2019. That might be a bit optimistic. Production ramp up is scheduled for Q1 in 2022. Given the simplicity of the process the operators don't think that commissioning risk is much to worry about, but it can't be totally dismissed.

On the upside front, doing an offtake agreement is obviously going to be a fillip, but what about corporate deals whereby strong partners may come in for both equity and financing. These are standard items that encourage speculation.

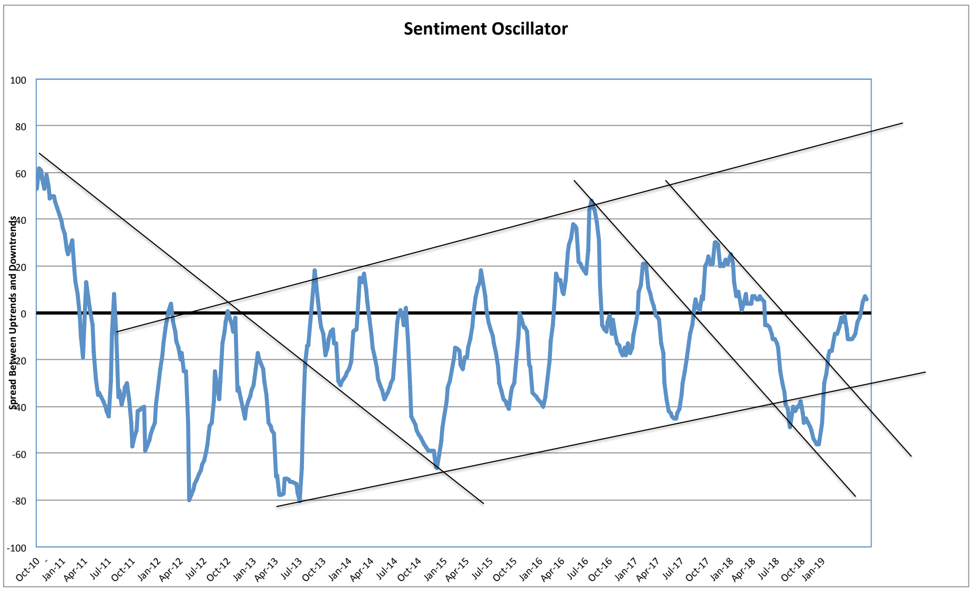
Alpha is yet to determine where its first commercial production facility will be established. Newcastle, Gladstone and Kwinana are all being considered

The bottom line

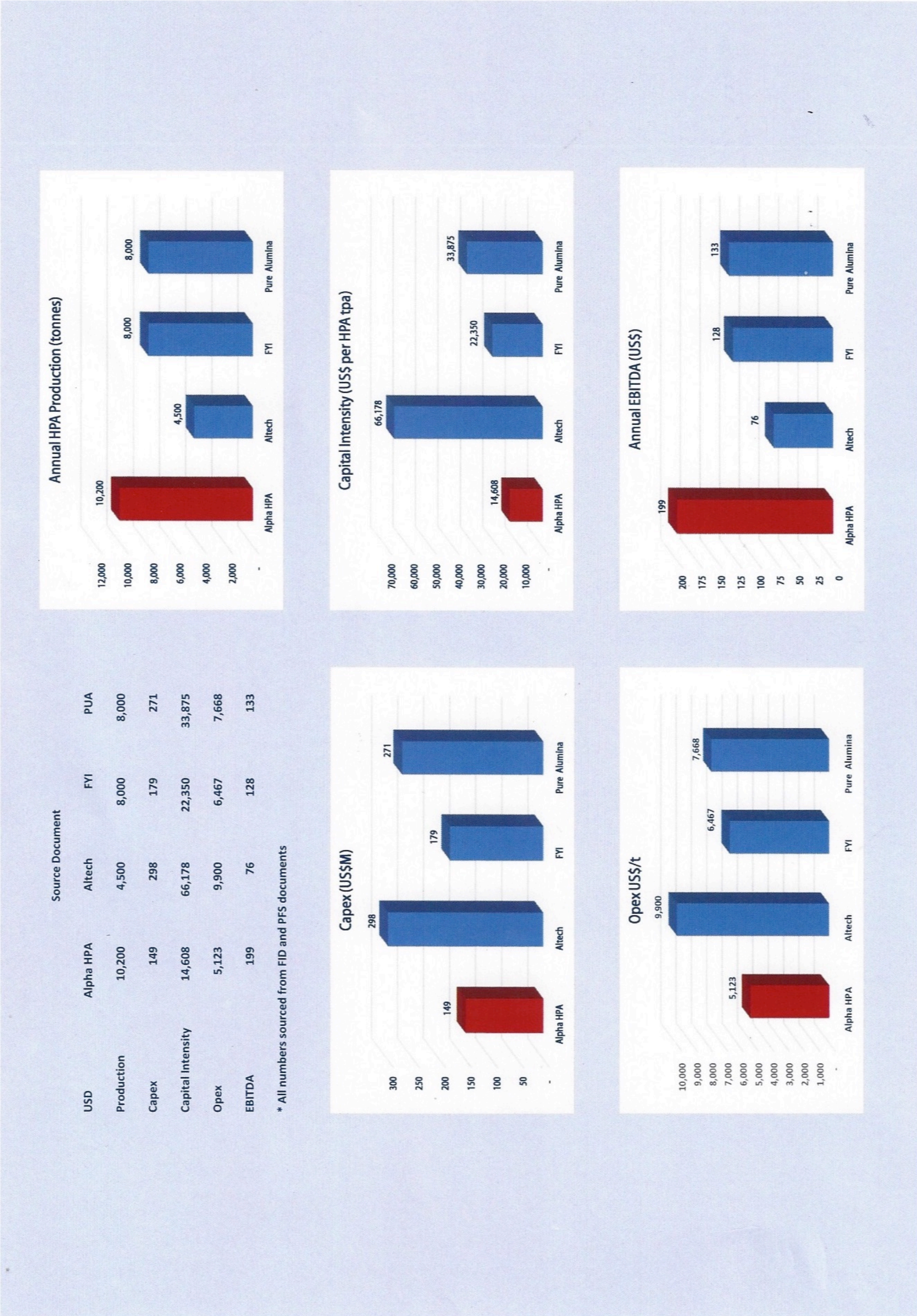
The bottom line is that Alpha looks good. It looks promising. Technical risks look low but there is an element of acting on faith as the key to the process is an "11 magic herbs and spices" formula of organic feedstock. This is the key IP.

For those investors who are seeking to make money out of the growing EV market, and who don't want to play commodities with volatile prices, Alpha could be the way to go if you have a little patience. The potential upside could be several times your money some time over the next year or two. We have picked up chart coverage so as to keep a closer eye on the stock.

In any business it is all about comparative analysis. Which is the best vehicle to back? The attached page, provided by Alpha, shows its perspective on key measures.



Sentiment Oscillator: Sentiment steadied over the week. There were 41% (42%) of the charts in uptrend and 35% (35%) in downtrend on Friday's close. **Note that the All Ords, The Energy and the Metals and Mining Indices have all breached recent uptrends.**



Source Document

USD	Alpha HPA	Altech	FYI	PUA
Production	10,200	4,500	8,000	8,000
Capex	149	298	179	271
Capital Intensity	14,608	66,178	22,350	33,875
Opex	5,123	9,900	6,467	7,668
EBITDA	199	76	128	133

* All numbers sourced from FID and PFS documents

Comparative Table of HPA Producers and Developers

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		breached uptrend	
Metals and Mining	XMM		breached uptrend	
Energy	XEJ		breached uptrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA			sideways	HPA
Adriatic Resources	ADT		new downtrend	zinc
Aeon Metals	AML		back in downtrend	copper + cobalt
Alacer Gold	AQG		new high	gold – production
Alkane Resources	ALK		stronger on rare earth thematic	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alchemy Resources	ALY		breached downtrend	nickel, cobalt
Alicanto Minerals	AQI		back to support line	gold exploration
Allegiance Coal	AHQ		new high	coal
Alliance Resources	AGS		still down	gold exploration
Altech Chemicals	ATC		down	industrial minerals - synthetic sapphire
Apollo Consolidated	AOP		rising	gold exploration
Arafura Resources	ARU		down	rare earths
Argent Minerals	ARD		new uptrend	silver
Aurelia Metals	AMI		still falling	gold + base metals
AusTin	ANW		new low	tin, cobalt
Australian Bauxite	ABX		breached uptrend	bauxite
Australian Potash	APC		continuing with uptrend	potash
Australian Mines	AUZ		testing downtrend	cobalt/nickel
Australian Vanadium	AVL		new low	vanadium
BHP	BHP		heavy slump	diversified, iron ore
Base Resources	BSE		pullback	mineral sands
Bathurst Resources	BRL		down	coal
BBX Minerals	BBX		breaching uptrend	gold exploration
Beach Energy	BPT		breached ST downtrend	oil and gas
Beacon Mining	BCN		new high	gold production
Bellevue Gold	BGL		near high	gold exploration
Berkeley Energia	BKY		in secondary downtrend	uranium
Blackstone Minerals	BSX		breached downtrend	gold, cobalt
Bounty Coal	B2Y		still in downtrend	coal
Breaker Resources	BRB		drifting	gold exploration
Broken Hill Prospecting	BPL		steeply higher	minerals sands
Buru Energy	BRU		testing uptrend	oil
Buxton Resources	BUX		continuing down	nickel exploration
Cardinal Resources	CDV		breached downtrend	gold exploration

Cassini Resources	CZI		sideways	nickel/Cu expl.
Celsius Resources	CLA		falling back to lows	copper/cobalt
Chalice Gold	CHN		new uptrend	gold exploration
Chase Mining	CML		uptrend	nickel/copper/PGE
Chesser Resources	CHZ		falling	gold exploration
Cobalt Blue	COB		new lows	cobalt
Dacian Gold	DCN		strong rise	gold
Danakali	DNK		sideways to lower	potash
Davenport Resources	DAV		down	potash
Egan Street Resources	EGA		under takeover offer	gold
Emerald Resource	EMR		sideways	gold
Evolution Mining	EVN		new high	gold
Exore Resources	ERX		rising	gold exploration
FAR	FAR		sideways at lows	oil/gas
First Graphene	FGR		uptrend	graphene
Fortescue Metals	FMG		breached uptrend	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		sideways movement	lead
Galilee Energy	GLL		new high	oil and gas, CBM
Gold Road	GOR		new high	gold
Graphex Mining	GPX		drifting lower	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		surge to new high then heavy pullback	potash
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		at lows	battery metals
Iluka Resources	ILU		down	mineral sands
Image Resources	IMA		pullback	mineral sands
Independence Group	IGO		rising	gold, nickel
ioneer (was Global Geoscience)	INR		down again	lithium
Jervois Mining	JVR		sideways at lows	nickel/cobalt
Jindalee Resources	JRL		bounced off support line	lithium
Karoon Gas	KAR		heavy retracement	gas
Kasbah Resources	KAS		bouncing off its low	tin
Kibaran Resources	KNL		down	graphite
Kin Mining	KIN		new uptrend forming	gold
Legend Mining	LEG		bouncing	nickel exploration
Lepidico	LPD		down	lithium
Lithium Australia	LIT		new low	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		bounced off support line	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		rising	gold exploration
MetalsX	MLX		at lows	tin, nickel
Metro Mining	MMI		testing downtrend	bauxite

Mincor Resources	MCR		new uptrend forming	gold
Musgrave Minerals	MGV		breached downtrend	gold exploration
Myanmar Minerals	MYL		uptrend breached	zinc
Nelson Resources	NES		new low	gold exploration
Neometals	NMT		continuing down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		surged to reach resistance line	REE
Northern Star Res.	NST		pullback	gold
NTM Gold	NTM		rising again	gold exploration
Oceana Gold	OGC		breaching downtrend	gold
Oklo Resources	OKU		bounced off lows	gold expl.
Orecorp	ORR		rising again	gold development
Oro Verde	OVL		rising	rare earths
Orocobre	ORE		strong bounce	lithium
Oz Minerals	OZL		rising again	copper
Pacific American Holdings	PAK		sideways	coal
Pantoro	PNR		down	gold
Panoramic Res	PAN		testing downtrend	gold , nickel
Peak Resources	PEK		heavy pullback	rare earths
Peel Mining	PEX		still down	copper
Peninsula Energy	PEN		breached uptrend	uranium
Pensana Metals	PM8		surge to high	rare earths
Perseus Mining	PRU		surge to new high	gold
Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		new uptrend forming	gold, silver, zinc
Polarex	PXX		surge higher	polymetallic exploration
Prodigy Gold	PRX		new high	gold exploration
Ramelius Resources	RMS		new high	gold production
Real Energy	RLE		new low	gas
Red5	RED		new high	gold
Red River Resources	RVR		good rally	zinc
Regis Resources	RRL		pullback	gold
Resolute Mining	RSG		surge higher	gold
RIO	RIO		short term down	diversified, iron ore
Salt Lake Potash	SO4		new high	potash
Saracen Minerals	SAR		surged higher	gold
St Barbara	SBM		surge into new uptrend	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		uptrend	gold exploration
Sheffield Resources	SFX		rising again	mineral sands
St George Mining	SGQ		testing downtrend	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal

Strandline Resources	STA		slump	mineral sands
Sundance Energy	SEA		heading lower	oil/gas
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		down	graphite
Technology Metals	TMT		sideways	vanadium
Tiger Realm	TIG		surged higher, at resistance line	coal
Triton Minerals	TON		breached secondary downtrend	graphite
Troy Resources	TRY		testing downtrend	gold
Vango Mining	VAN		breached downtrend	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		improving	gold
Westgold Resources	WGX		uptrend	gold
Westwits	WWI		down	gold
Western Areas	WSA		surge out of downtrend	nickel
Whitebark Energy	WBE		rising	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		sideways	gold exploration
Zinc Mines of Ireland	ZMI		breached downtrend	zinc
Totals	41%	59	Uptrend	
	35%	50	Downtrend	
		144	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	**32**	**22.2%**	
Gold Exploration	**19**	**13.2%**	

Oil/Gas	**9**	**6.3%**	
Graphite	**6**	**4.2%**	
Nickel	**10**	**6.9%**	
Coal	**8**	**5.6%**	
Lithium	**8**	**5.6%**	
Mineral Sands	**6**	**4.2%**	
Zinc/Lead	**7**	**4.9%**	
Potash/Phosphate	**5**	**3.5%**	
Copper	**5**	**3.5%**	
Cobalt	**4**	**2.8%**	
Rare Earths	**6**	**4.2%**	
Tin	**3**	**2.1%**	
Iron Ore	**3**	**2.1%**	
Uranium	**3**	**2.1%**	
Bauxite	**2**	**1.4%**	
Vanadium	**2**	**1.4%**	
Silver	**1**	**0.7%**	
Diamonds	**1**	**0.7%**	
Other	**4**		
Total	**144**		

FEC Disclosure of Interests: It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. In this week's publication FEC discloses that interests associated with the the author hold shares in First Graphene. and Lucapa Diamond Company. The author is chairman of First Graphene and one of the largest shareholders, through a number of entities. Over the last three years FEC has received fees from Blackstone Minerals, Broken Hill Prospecting, Cobalt Blue, First Graphene, Golden Rim, Lucapa Diamond Company, Orinoco Gold and West Wits for corporate and capital raising services. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.