

19 August 2017

On Friday's Close

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## Share prices are rising with the continuing improvement in sentiment

Instability in US politics rather than the North Korean threat is having the greatest impact on markets right now, with the gold price reaching new highs. In Australia, the reporting season has most analysts and journalists preoccupied. The pathetic politicians in the house on the hill seem more concerned with distractions that are costing the public lots of money, but which do nothing for us. Sentiment continued to improve as demonstrated by the Oscillator. It is still not time to party but those who are not buying now will find that they have to get in the queue when they realise what is going on.

### *FGR Graphene Capability Statement*

Last Wednesday, FGR released an unusual document titled "*Graphene Operations Review and Capability Statement*", which goes to some length to explain its graphene initiative. Yet, it is more than just a company specific release. It actually goes to some length to make the reader aware of many aspects of the graphene business that need to be understood by prospective investors. As such, it is a useful educational document that is well worth reading. (*see the attachment*).

Companies nowadays are under pressure to provide a stream of new flow to keep their share prices bubbling along. The desired formula seems to be an ASX release that focuses on a few highlights to get an instant reaction, even where this is overly superficial. The FGR Capability Statement is a step back from this approach as it seeks to provide a much greater depth of understanding about the company's activities. It obviously takes a while to read and digest the contents, but it is worth making the effort.

Everyone and every company involved in graphene is still on a steep learning curve. Like with anything new, there is always the risk of focusing on the wrong parameters as investors try and weigh up the merits of the various players. Reading this Statement will give you some perspective of what FGR thinks is important.

Graphene players are mostly in the marshalling area as they jostle for a position ahead of the real race. Various methods of making graphene are being presented with each one having its "unique" merits. However, there are issues with verifying what companies are saying and what is real, with there being no standardised measures adopted by all. It makes comparisons difficult.

Ask whether companies are producing true graphene (vFLG, FLG or MLG) or whether they are producing the less valuable product known as graphene nanoplatelets (GNP). In reality, most will produce both, but in what ratios? Be careful of companies that try to confuse the difference as they have very different price regimes. That said, some applications need the higher quality variety but others might get acceptable results at a cheaper price with GNPs. Defects might not matter for some applications, for example, if you are not seeking conductivity

enhancements. Economics will sort this issue out as time goes by as there is always trade-off between price and quality.

Still, the most important hurdle for the graphene sector is the securing of real and renewable sales contracts. Before these can be secured a potential supplier has to provide samples of its graphene so that the customer can see how it works in its manufacturing process. It will always require modification and enhancement as the customer learns how to get the best out of the new materials and technology. Thus engagement with industry is probably the most important hurdle. It takes time to satisfy the engineers.

Measuring the quality will never be as exact as engineers might wish due to the challenge of producing repeatable quality from batch to batch. That is one issue, but it is even difficult to measure quality within any given batch due to the tiny sample points. You will never be able to get a bell curve distribution of results so the likely scenario is that there will be a range of measurements that producers seek to satisfy. At the end of the day, the customer will tell the supplier whether its works or not. If it does so satisfactorily, then sales may follow.

Exactly how and why it works may also constitute part of the IP, such that the graphene supplier might never know exactly. It might just supply a raw product that will be finished within the secure confines of the customer's premises.

You should at all times be aware that just as "oil's ain't oils", "graphene ain't graphene". It will never be a case of only one or two off-the-shelf products. There will need to be finishing steps. We do not know whether this means that the raw graphene product will be commoditised in due course, but that is a possibility.

As we all know, the solution to making a profit in a commodity market is to be in the lowest cost quartile. That means you need to have the best grade ore. You need the lowest capital costs to maximise efficiency. The top down method of making graphene should be the lowest cost with electrochemical exfoliation being the simplest example. The higher the grade of the ore the better for this method, with there being direct implications for capital cost, as the production equipment can be smaller. The FGR grade, at better than 95%, continues to be streets ahead of that of the nearest competitor, which quotes a grade of 25%.

Economies of scale in graphene manufacturing will be less important than for many other commodities, particularly if you consider that a producer with many customers may require a configuration of different finishing steps. There is considerable merit in having modular units on the factory floors of customers as opposed to centralised graphene production facilities from which the finished, or semi-finished graphene is transported.

So, taking into account all of the practical issues involved in becoming an established graphene player, the immediate objective should be to establish production capability ahead of sales and offtake agreements. You won't be taken seriously just on laboratory scale production. You must keep capital costs low until the point of sales, otherwise you might be hanging out to dry while you are waiting for buyers to appear. At the same time the greater the engagement with industry and potential customers, having their involvement in designing workable products, the better chance of success.

The first mover advantage is applicable in the graphene business not only due to the time it takes to get up the learning curve, but once confidence is established between suppliers and customers it would be foolish for industry to switch suppliers unnecessarily. This is a good reason to be participating now, rather than some time in the future, if you are seeking a strong position in the industry.

### *Draig is now going for gold ... and raising money*

Draig Resources is a company that went to Mongolia in search of coal riches a few years back, but thought better of it when Peter Doughty, a coal expert, took control. After several years of looking for a better future, Peter has handed control of the company over to a new team headed by Steve Parsons, previously the CEO of the high-flying West African gold explorer, Gryphon Minerals.

Steve has come up with something much closer to home, in WA, the Bellevue gold mine. Located only 40 km from Leinster, the Bellevue gold mine boasts historical gold production of around 800,000 oz at 15 gpt. It was actually one of the first projects that I looked at as a young gold analyst, in 1983. Back then it was operated by Queen Margaret Gold Mines NL in joint venture with Spargos Exploration, junior companies in the Minoxplex stable that was owned by the likes of Mark Smyth, Peter Jermyn, Barry Feldberg and Ian Veale.

The last phase of mining was from 1988 until 1995. The underground mine was very profitable for a while due to the free milling ore and high grades that at times exceeded 30 gpt. So profitable was it that Independent Resources swooped on the company after about three years. Thereafter the history becomes a little more clouded, but the mine continued to generate strong profits. Eventually it was sold to Plutonic Resources, but that company had bigger fish to fry.

The Bellevue hasn't received much attention in the last 20 years, having had a few ownership changes. Maybe that was because of corporate reasons, or maybe it was because the owners thought that exploring below the 450m depth was an issue, especially seeing as there is a fault going through at these depths that seems to truncate the orebody.

Coming in with a fresh pair of eyes, Draig has carried out some structural analysis that suggests the depth extension have been displaced by a minor fault, making it more accessible than previously thought. Importantly, the orebody mined to date carried high levels of sulphides. This makes the body very responsive to electromagnetic imaging (EM). If the orebody has moved only a matter of tens of metres, rather than kilometres, there is a big chance that the EM will show Draig where to drill. It is a very tempting target.

The proposed work program includes running the EM first, to be followed up by drilling in October. This would involve three holes to test between 450m and 650m deep vertical, meaning down hole depths of 700-800m. While these will not be cheap, the proposal to drill two wedges of each of these will give better value and a total of nine intercepts. Hopefully this will be all that is needed to locate the extension of the orebody.

This is a conceptual exploration play based on good historical information, with a bit of modern innovation thrown in. The market quite often gets excited about this style of opportunity, especially when the drill rig starts turning. It is an easy concept to understand and the payoff will be big if it delivers. It will certainly result in some healthy speculation.

In addition to the old mine, there is a 10 km strike length of licences covering prospective horizons for new orebodies. Again, the EM may be of assistance in locating them. There are no guarantees in exploration, but you have to be in it to win it. With a market capitalisation of only \$12m, there is plenty of room for upside.

As we were going to press, Draig was placed in a trading halt for a \$3m placement at a price of 5¢, in two tranches. This will ensure sufficient funds to complete the drilling program at Bellevue. *If readers would like to participate in the placement they should contact us ASAP and we will see if we can get some stock. We have added Draig to our chart coverage.*

### *Who really cares about dual citizenship?*

This whole business of dual citizenship of members of parliament is becoming a farce. It has been a feeding frenzy for the media, but who really cares? It is an example of an archaic law that has little relevance in the multicultural global society that has been imposed upon us. Social issues, sexuality and any number of other considerations have been elevated beyond the importance of citizenship.

It is strange that a person can have dual citizenship without knowing it, just through parentage. If this is as a result of legislation in another country, what is to stop any country such as New Zealand from passing a law that unilaterally grants everyone in Australia citizenship of New Zealand (not that it would want to)? As Australians we cannot tell it not to, but would that mean we have to take action to renounce it?

It should be noted that the Green Party members who found that they had breached the law in regards to the dual citizenship have both resigned. That was the honourable thing to do. Barnaby Joyce has not resigned and instead, will seek an High Court judgement. What if the High Court rules against him? Does that mean any voting on legislation in Parliament or executive order involving Mr Joyce is open to challenge? This is an extraordinarily crazy situation we now have. I think we need some pragmatism here to stop the waste of time.

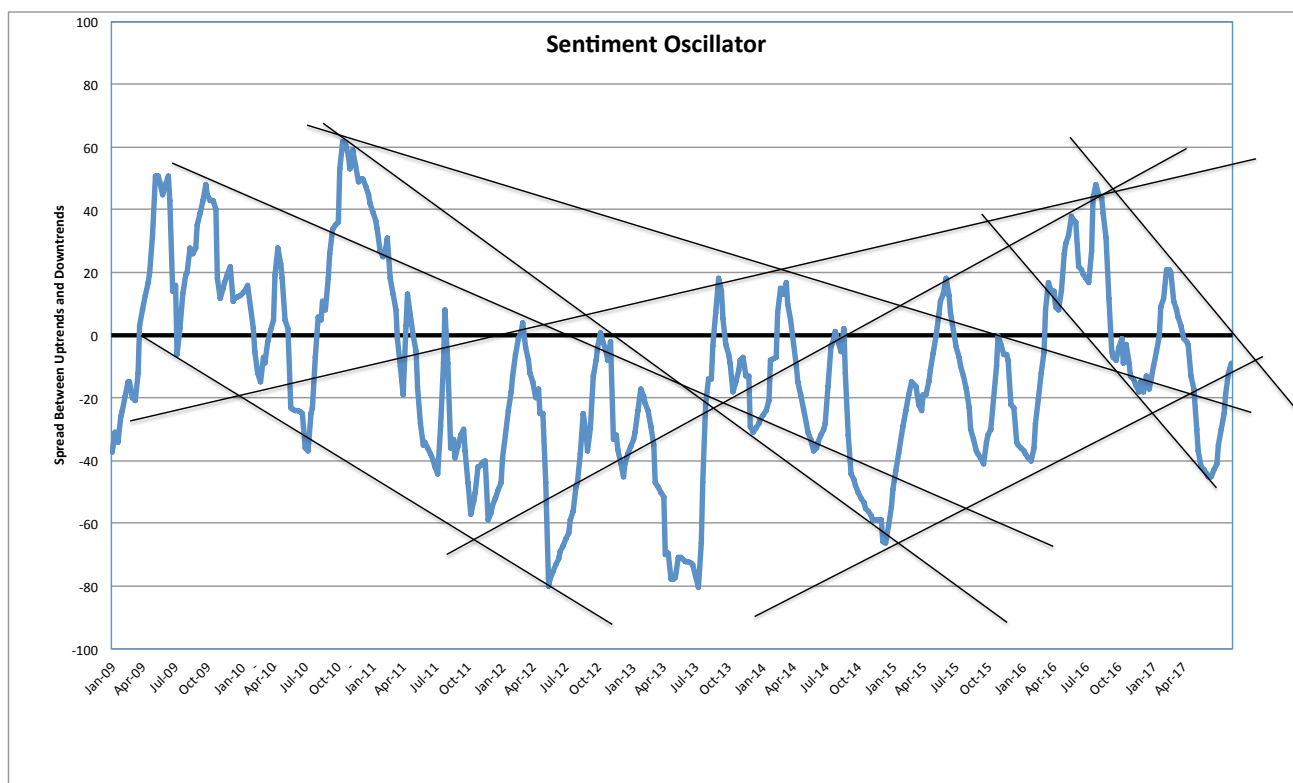
### *Is treason no longer a crime?*

Last week the Yarra City Council decided to ban Australia Day celebrations out of cultural sensitivity to an ethnic minority that constitutes no more than 3% of our population. What about everyone else in the other 97%? Don't they count?

The spokesman for the Council was not a native Australian, black or white or by another definition He was an Irish

immigrant. What right has a blow-in to come down to Australia from a foreign country and then try and tell us about our history and change our traditions. My family has been in Australia since 1788. We had no choice. We were transported here. Yet here we stayed and we carved out a nation where previously there was none. Over generations

we toiled to build our society through untold hardship. It is an insult to have migrants who have been here for only a short number of years to lecture, and worse, legislate to change our history. If we hadn't come down to Australia and built this country, that spokesman would still be sitting in his bog back in Ireland.























































**Sentiment Indicator:** The recovery in sentiment continued during the week There were 29% (27%) of the charts in uptrend and 38% (39%) 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	still sideways	
Metals and Mining	XMM	still rising	
Energy	XEJ	sideways	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	a little stronger	gold
Aeon Metals	AML	testing uptrend	copper + cobalt
Alacer Gold	AQG	falling from rally	gold – production
Alkane Resources	ALK	spiked higher	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	weaker	phosphate
Alicanto Minerals	AQI	new low on rights issue shortfall	gold exploration

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Allegiance Coal	AHQ		rising	coal
Alliance Resources	AGS		sideways	gold exploration
Alltech Chemicals	ATC		pullback after breakout	industrial minerals
Anova Metals	AWV		strong rebound, then fell again	gold
Antipa Minerals	AZY		rallying	gold
Apollo Consolidated	AOP		<b>strong rise</b>	gold exploration
Archer Exploration	AXE		pullback	magnesite, graphite
Argent Minerals	ARD		gentle uptrend	polymetallic
Aspire Mining	AKM		testing downtrend	coal
Atrum Coal	ATU		<b>surged higher</b>	coal
Aurelia Metals	AMI		at apex of wedge	gold + base metals
Auroch Minerals	AOU		down	exploration
Aus Tin	ANW		testing downtrend	tin, cobalt
Australian Bauxite	ABX		stronger	bauxite
Australian Potash	APC		<b>slump back into downtrend</b>	potash
Australian Mines	AUZ		gentle uptrend commenced	cobalt/nickel
Australian Vanadium	AVL		down	vanadium
Avanco Resources	AVB		nudging resistance line	copper
AWE	AWE		breached downtrend	oil and gas
Azure Minerals	AZS		sideways through downtrend	silver
BHP	BHP		short term uptrend	diversified
Base Resources	BSE		breaching uptrend	mineral sands
Bathurst Resources	BRL		continuing higher	coal
Battery Minerals	BAT		reached resistance line	graphite
BBX Minerals	BBX		uptrend, but correcting now	gold
Beach Energy	BPT		breached steepest downtrend	oil and gas
Beadell Resources	BDR		testing downtrend	gold
Berkeley Resources	BKY		testing downtrend	uranium
Berkut Minerals	BMT		<b>steeply higher</b>	cobalt
Blackham Resources	BLK		slump to new low	gold
Broken Hill Prospect.	BPL		down again	minerals sands, cobalt
Buru Energy	BRU		sideways at lows	oil
Canyon Resources	CAY		new low	bauxite
Cardinal Resources	CDV		rising again	gold exploration
Carnegie Clean Energy	CCE		testing uptrend	wave energy
Cassini Resources	CZI		testing downtrend	nickel/Cu expl.
Chalice Gold	CHN		holding uptrend	gold
Cobalt One	CO1		rally on change of name (from Equator)	cobalt
Cobalt Blue	COB		new uptrend	cobalt
Comet Resources	CRL		new high	graphite/graphene
Consolidated Zinc	CZL		downtrend	zinc
Corizon Mining	CZN		breached downtrend	cobalt
Crusader Resources	CAS		breached downtrend	gold/iron ore
Dacian Gold	DCN		breached downtrend	gold exploration
Danakali	DNK		still in uptrend	potash
Doray Minerals	DRM		back in downtrend	gold
Draig Resources	DRG		rising	gold
Duketon Mining	DKM		new low	nickel
Eden Innovations	EDE		breached short term downtrend	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		rallying from lows	zinc
Evolution Mining	EVN		ST down, within LT uptrend	gold
Excelsior Gold	EXG		back to recent high	gold
Finders Resources	FND		LT uptrend	copper

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First Australian	FAR	testing uptrend	oil/gas
First Graphite	FGR	testing secondary downtrend	graphite
Fortescue Metals	FMG	short term uptrend	iron ore
Galaxy Resources	GXY	testing downtrend	lithium
Galilee Energy	GLL	down	oil and gas, CBM
Gascoyne Resources	GCY	breached uptrend	gold
Global Geoscience	GSC	back to highs	lithium
Gold Road	GOR	uptrend continuing	gold exploration
Graphex Mining	GPX	new low then strong recovery	graphite
Heron Resources	HRR	drifting lower	zinc
Highfield Resources	HFR	continuing down	potash
Highlands Pacific	HIG	down	copper, nickel
Hillgrove Resources	HGO	back to highs	copper
Iluka Resources	ILU	surged higher	mineral sands
Image Resources	IMA	testing uptrend	mineral sands
Independence	IGO	sideways	gold, nickel
Intrepid Mines	IAU	sideways	copper
Karoo Gas	KAR	breached support line	gas
Kibaran Resources	KNL	testing downtrend	graphite
Kin Mining	KIN	surge on gold discovery announcement	gold
Legend Mining	LEG	sideways	exploration
Lithium Australia	LIT	pullback after breakout	lithium
Lucapa Diamond	LOM	down	diamonds
Macphersons Res.	MRP	downtrend	silver
Medusa Mining	MML	side ways through downtrend	gold
MetalsX	MLX	LT uptrend in play	tin, nickel
Metro Mining	MMI	sideways to higher	bauxite
Mincor Resources	MCR	new uptrend	nickel
Mineral Deposits	MDL	on support line	mineral sands
Mustang Resources	MUS	breached downtrend	diamonds, rubies
MZI Resources	MZI	down	mineral sands
Northern Minerals	NTU	testing downtrend	REE
Northern Star Res.	NST	rallying	gold
NTM Gold	NTM	breached uptrend	gold
Oceana Gold	OGC	down after steep fall	gold
Oklo Resources	OKU	heavy correction	gold expl.
OreCorp	ORR	down	gold development
Orinoco Gold	OGX	breached downtrend, then pullback	gold development
Orocobre	ORE	under longer term downtrend	lithium
Oz Minerals	OZL	breached downtrend	copper
Pacific American Coal	PAK	down	coal, graphene
Pantoro	PNR	new high	gold
Panoramic Res	PAN	surge through downtrend	nickel
Peel Mining	PEX	surge through downtrend	copper
Peninsula Energy	PEN	PEN	uranium
Perseus Mining	PRU	new low	gold
Pilbara Minerals	PLS	hugging downtrend line	lithium/tantalum
PNX Metals	PNX	down	gold, silver, zinc
Red River Resources	RVR	holding longer term uptrend	zinc
Regis Resources	RRL	confirming uptrend	gold
Resolute Mining	RSG	still going lower	gold
Reward Minerals	RWD	new low	potash
RIO	RIO	recovery	diversified
RTG Mining	RTG	breached downtrend	copper/gold

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Salt Lake Potash	SO4		down	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		rallying	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		back in downtrend	silver
Santos	STO		under long term support line	oil/gas
Sheffield Resources	SFX		still in downtrend	mineral sands
Silver Lake Resources	SLR		heavy fall	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		down	gas
Southern Gold	SAU		resuming uptrend	gold
Stanmore Coal	SMR		breaching long term support	coal
Sundance Energy	SEA		down	oil/gas
Syrah Resources	SYR		strong rise	graphite
Talga Resources	TLG		spike then pullback	graphene
Tanami Gold	TAM		short term down	gold
Tempo Australia	TPP		breached downtrend	mining services
Teranga Gold	TGZ		at lows	gold
Tiger Realm	TIG		breached downtrend	coal
TNG Resources	TNG		testing short term downtrend	titanium, vanadium
Torian Resources	TNR		new low	gold expl'n
Toro Energy	TOE		breached first downtrend	uranium
Troy Resources	TRY		testing downtrend	gold
Tyranna Resources	TYX		testing downtrend	gold exploration
Vango Mining	VAN		uptrend breached	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		strong rise	gold
Westwits	WWI		rallying	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		down	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		still down	gold
Wolf Minerals	WLF		down	tungsten
Totals	29%	42	Uptrend	
	38%	56	Downtrend	
		147	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.



<b>Weightings of Sectors Represented in the Company Charts</b>			
<b>Sector</b>	<b>No. of Companies</b>	<b>Weighting</b>	
Gold	35	23.8%	
Copper	11	7.5%	
Gold Exploration	14	9.5%	
Coal	10	6.8%	
Oil/Gas	9	6.1%	
Potash/Phosphate	6	4.1%	
Mineral Sands	7	4.8%	
Graphite	7	4.8%	
Silver	6	4.1%	
Zinc	6	4.1%	
Lithium	5	3.4%	
Nickel	5	3.4%	
Uranium	4	2.7%	
Cobalt	4	2.7%	
Tin	2	1.4%	
Bauxite	3	2.0%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	10		
<b>Total</b>	<b>147</b>		

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