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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

19 March 2016 *Charts on Friday's Close* Analyst : Warwick Grigor

Having made up for lost ground, markets are at an important juncture

Markets have recovered much of the January/February selldown and we are now approaching the decision point - do they continue to move higher, are do they bumble along from these levels?

Starting with the indices first, the All Ord is still on the breakout side of the downtrend resistance line but the Energy and Mining indices are threatening to run out of steam. That means there is more work - more impetus required before we can become bullish. There is no suggestion that there is going to be another bout of shorting again, the feature that drove markets to unexpected lows in January, but there will be plenty of room for differences of opinion as to where markets are headed. That is the nature of markets.

Gold price fell and recovered in interest rate news

Early last week, in response to movements in the gold price, a number of the leading gold producers started to demonstrate topping formations in the charts, rolling over somewhat. There was nervousness ahead of the meeting of the Fed, but the decision to hold interest rates steady was exactly what the gold price needed, resulting in 2.5% rebound back above US$260/oz. Each time we have a good price rise like this it adds to the confidence in the sector.

It is a strongly held view that the gold price is in the early stages of a much better market that could be positive for a year or two, at least. How long the new bull market lasts will depend on fundamentals and economics but also on the dynamics of the market itself. If it runs too hard too soon we will have to adjust our expectations. In times like this, where it goes through a pullback of days or weeks, it is a good time to shift your exposure to quality situations that you want to hold fundamentally, as opposed to partaking in opportunistic trading to benefit from momentum flows. Look at the announcements of the companies to identify those that are actually making advances operationally and on the exploration front that may attract broader support in the next uptick in the market.

Don't be fooled by short covering spikes

The previous week's excitement about the 19% spike in the iron ore price is a good example of the volatility involved in markets where shorting positions become significant. Short covering exacerbates rebounds and rallies and can give rise to false expectations. With iron ore, we have seen the commodity price slide since that rally, and share prices with it. The market is still in oversupply and set for many years of difficulties. Don't be fooled by one day movements.

Stunning intersection of vein graphite

Last week First Graphite (FGR) released stunning drill results from its 100% owned Aluketiya project in Sri Lanka, currently being developed for production. The 1.7m wide high grade vein that was reported is likely the most significant graphite intersection in modern Sri Lankan history. These veins are typically only 25-30cm wide, but even at these narrow widths their high value means they can be economic. Extend the widths to 1-2m and you have a real bonanza. The amount of graphite mined per metre of drive development becomes very significant, and very profitable. It is all about the bottom line.

While additional holes will be required to test the vein beneath the 84m vertical depth of this intercept, it could be shaping up to be something similar to the Kahatagaha graphite mine owned by the government. This has been operating for more than 100 years and is now at depths exceeding 600m. It looks like FGR might have a "company maker" on its hands.

More on different types of graphite

Last week I raised a few issues regarding graphite stocks, pointing to the difficulties involved in sorting the wheat from the chaff. That piece was essentially about **flake** deposits typical of the type we seeing being promoted out of Mozambique and Tanzania, but also found throughout the world. The graphite occurs as disseminated flakes in metamorphic rocks e.g. gneisses, and grades typical vary from 5% to 25% TCG.

The most abundant type of graphite is the **amorphous** variety, a fine grained type which is typically formed from anthracite i.e. coal seams that have metamorphosed. Grades of deposits are often in the 20-40% TGC range, but amorphous graphite is more difficult to upgrade due to an association with micro crystals. This results in lower grade concentrates with impurities, often 70-85% TGC, and therefore amorphous graphite attracts lower prices than flake graphite.

The rarest and purest type is **vein graphite** that forms by deposition from hydrothermal carbonaceous fluids that fill steeply dipping veins and fissures in the country rock. They typically grade in excess of 90% TGC and can be mined as direct shipping ore (DSO), require almost no processing on the mine site. The home of vein graphite is Sri Lanka, where narrow underground, low volume mines have been producing for more than 100 years.

Due to its exceptional purity and highly perfect crystal vein graphite products show superior thermal, electrical and mechanical properties. Unlike flake and amorphous graphite deposits that are found in extensive volume all around the world, vein deposits are very rare and have size limitations. As a result there will not be an oversupply of product in the foreseeable future.

The metallurgical questions that I posed last week with respect to flake deposits do not apply to vein deposits. The risk is all about exploration and finding it in the first place. Once found it can be extracted with simple but small scale underground mining methods. The main vein graphite will typically be 93% TGC with a lesser 75-80% grade material (needle vein graphite) also being available at the contact of the veins and the host rock.

Off-take agreements and graphite companies

The graphite industry is not one that has had much experience of long term off take agreements. Traditionally the producers have their preferred distribution chains, selling to middle men who take the graphite and further process it so that it meets the need of the ultimate consumer. Shipments of 5,000 tonnes is a common size.

With the new wave of graphite hopefuls, particularly those large tonnage projects in Africa, the subject of off-take agreements is frequently an issue. Where you have a larger project e.g. 20,000 tpa of concentrates and more, it would be a high risk strategy to commission a mine on the prospects of spot sales only. Yet before that, it would be most unlikely to be able to finance a mine development without some comfort on future sales, with respect to both volumes and prices.

A number of companies have announced off-take agreements that specifying tonnages and prices but they suffer from a fundamental problem. In virtually all of these examples the “agreements” have been for projects that are still at the scoping or PFS stage. There would be insufficient information, or certainty, for them to be enforceable, irrespective of what the companies announce. Quite simply, most are not worth the paper they are written on. You need to see the full agreements to really know, not just the ASX releases. Of course you will be told that they are confidential, because there will be all sorts of caveats and specifications that have to be met. They will be subject to many undisclosed clauses and conditions.

The Sri Lankan projects, such as the ones being developed by First Graphite, should be viewed differently. The limited volumes mean that market oversupply is most unlikely. When they come on stream it happens over a gradual ramp-up period as the underground mines take a while to achieve sustainable production. Long term off-take deals may be desirable but they are not really necessary. Capital development costs are much lower and more easily financed through equity finance. Expansions can be financed from internal cash flow. Further, the actual product is more consistent with less metallurgical issues that could cause buyers to reject flake concentrates. Thus product suitability risk is much less.

Santana Minerals - a new silver company

During the week Far East Capital completed a small ($0.5m) placement for a new silver company, Santana Minerals Ltd (SMI), to fund a drilling program on its Cuitaboca project in Mexico. SMI is chaired by Norm Seckold and Tony Mcdonald is the Managing Director.

Mexico has been a very rewarding country for Norm and his team over the years. His most notable success was with Bolnisi Gold and its Palmarejo silver/gold project, at which there was developed a 2 Mtpa operation on a resource of 24 Mt containing 3.1 Moz AuEq. Bolnisi was taken over by Coeur d’Alene Mines Corporation in 2007, to the delight of all shareholders.

Due to their past successful experiences in Mexico, Norm’s team is conversant with the regional geology and the style of mineralisation that is being investigated at the Cuitaboca project (earning 80% equity). The immediate focus is at the silver-rich southern end of the licences where the Mojardina Loop is showing potential for bulk tonnages of silver bearing ore, over a strike length of about 1 km.

The placement funds will be spent on an RC drilling programme of 15-20 holes beneath trenches that have had diamond saw samples return up to 3m at 400 gpt silver. Each hole is designed to hit multiple veins, to a maximum depth of 150m. The target is a bulk mining proposition with lower grade stock work zones between the high grade veins adding to the mineable tonnages. While it is early in the program, it would not be unreasonable to be targeting 20-30 Mt at 80 to 120 gpt sliver and a touch of gold - say, 0.2 gpt. This works out at about 100 Moz of silver.

The proposed program is the first phase of exploration at Cuitaboca, at the most accessible part of the licences. As you go further north you get to a different level in the geological sequence, which is showing itself to be richer in gold. There are plenty of other targets to explore at a later date.

It is easy to get your head around this one. It is a silver play in a country well known for silver deposits, being undertaken by a team with a proven track record of success. The gold silver ratio is at a 10 year high of more than 80:1. With the gold price moving higher the silver price will undoubtedly outperform gold in terms of upward price movements, so we should be looking for exposure to genuine silver stories. The reality is that there are not many on Australian soil, so we have to go to places like North America. With a market capitalisation of around $4m, SMI is a highly leverage vehicle to the silver price. If the forthcoming drill program delivers according to expectations we should see a much stronger share price performance. *Disclosure: FEC is in receipt of fees earned from the placement.*

West Wits potentially worth 5x it current price

We have attached some research on West Wits Mining done recently by JF Bertincourt, released under the FEC banner. In some respects this has similarities with Anova Metals whereby it can get into meaningful gold production at minimal capex, exploiting gold orebodies on brownfield mining sites, treating it through neighbouring processing plants. It is a gold asset realisation play ideally placed to take advantage of the improving outlook for the gold price.

Although I don’t go to Hot Copper, for obvious reasons, clients have reported back that everyone is in a lather about the outlook for the Derewo River gold project in Papua. In my opinion these guys wingeing on Hot Copper are barking up the wrong tree. Yes, Papua could be great, but a prudent man would not be placing any value on Derewo just yet. If you are holding it because of Derewo alone, you should sell. You don’t understand the company.

The value in WWI is in the gold licences in South Africa that hosts JORC resources of 1.2 Moz, and growing, within 400m of the surface. (Beneath that is more than another 10 Moz, but development of these additional ounces is not being contemplated). As the research says, if you value the gold at 3% of the in-situ value - not an unreasonable figure - WWI's share of the projects would be worth $40m at current gold prices. While WWI is moving towards near term gold production and cash flow becomes imminent investors will see the tangibility of the value, as will the neighbouring treatment plants that may prefer to own the assets rather than just do toll treatment deals. This is the point at which they will put in offers and WWI will be able to cash out and return a multiple of the current share price to its shareholders. Have a read of the research and you can form your own view.

We have reinstated Alicanto Minerals (gold exploration in Guyana), and Troy Resources (gold production in Brazil) and added Santana Minerals (silver in Mexico), making room by deleting Cudeco, Unity Mining and Valence Industries.

Sentiment Indicator: Sentiment pulled back a little over the week but at the same time the bear viewed moderated slightly. This is all part of coming to grips with the movements of recent weeks. There were 41% (45%) of the stocks in uptrend and 27% (28%) 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		breaching final resistance	
Metals and Mining	XMM		testing final resistance line	
Energy	XEJ		breaching final resistance	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		stopped by resistance	gold
Aeon Metals	AML		vertical rise	copper + cobalt
Alacer Gold	AQG		correcting lower	gold – production
Alkane Resources	ALK		continuing down	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
African Energy	AFR		still in downtrend	coal
Aguia Resources	AGR		downtrend	phosphate
Alicanto Minerals	AQI		steep rise	gold exploration
Altlech Chemicals	ATC		breached secondary downtrend	industrial minerals
Anova Metals	AWV		uptrend	gold
Antipa Minerals	AZY		breached downtrend	gold
Archer Exploration	AXE		drifting	graphite
Argent Minerals	ARD		sideways	polymetallic
Atlas Iron	AGO		retracing rise	iron ore
Atrum Coal	ATU		breached downtrend	coal
Australian Bauxite	ABX		New low	bauxite
Avanco Resources	AVB		ST uptrend	copper
AWE	AWE		ST uptrend	oil and gas
BHP	BHP		still undecided	diversified
Base Resources	BSE		steep rise from lows	mineral sands
Beach Energy	BPT		testing downtrend	oil and gas
Beadell Resources	BDR		strong rise	gold
Berkeley Resources	BKY		correcting downwards	uranium
Blackham Resources	BLK		steeply higher	gold
Broken Hill Prospect.	BPL		down	minerals sands, cobalt
Buru Energy	BRU		sideways at lows	oil
Canyon Resources	CAY		rising	bauxite
Cardinal Resources	CDV		moving higher?	gold exploration

Carnegie Wave	CWE		testing downtrend	wave energy
Cassini Resources	CZI		new uptrend	nickel/Cu expl.
Chalice Gold	CHN		rising	gold
Consolidated Tin	CSD		heavy slump	tin
Consolidated Zinc	CZL		secondary downtrend	zinc
Coventary Resources	CYY		breached downtrend	copper
Dacian Gold	DCN		uptrend	gold exploration
Danakiali	DNK		sideways	potash
Doray Minerals	DRM		new high	gold
Duketon Mining	DKM		testing short term uptrend	nickel
Eden Energy	EDE		strong breakout upside	carbon nanotubes in concrete
Energia Minerals	EMX		strong breach of downtrend	zinc
Energy Resources	ERA		breached downtrend	uranium
Evolution Mining	EVN		correcting lower	gold
Excelsior Gold	EXG		rolling over, short term down	gold
First Australian	FAR		breached downtrend	oil/gas
First Graphite	FGR		just testing resistance line	graphite
Fortescue Metals	FMG		huge rise then correction	iron ore
Galaxy Resources	GXY		new high	lithium
Galilee Energy	GXY		surged higher	oil and gas, CBM
Gascoyne Resources	GCY		uptrend	gold
General Mining	GMM		new high	lithium
Geopacific Res. Resources	GPR		new uptrend	copper/gold exp.
Gold Road	GOR		uptrend	gold exploration
Goldphyre	GPH		holding flatter uptrend now	potash,gold
Gryphon Minerals	GRY		higher	gold
Herron Resources	HRR		down	zinc
Highfield Resources	HFR		breaching uptrend	potash
Highlands Pacific	HIG		testing downtrend	copper, nickel
Hillgrove Resources	HGO		risen to resistance line	copper
Hot Chilli	HCH		new low	copper
Iluka Resources	ILU		uptrend	mineral sands
Independence	IGO		steep rise	gold, nickel
Intrepid Mines	IAU		sideways	copper
IMX Resources	IXR		testing downtrend	graphite
Karoon Gas	KAR		at lows	gas
Kasbah Resources	KAS		short term higher	tin
KBL Mining	KBL		collapse back to lows	copper/gold/zinc
Kibaran Resources	KNL		breaching support	graphite
Kin Mining	KIN		at lows	gold
King Island Scheel.	KIS		New low	tungsten
Kingsgate Consol.	KCN		secondary downtrend	gold
Kingsrose Mining	KRM		at resistance	gold
Legend Mining	LEG		breached downtrend	exploration
Lithium Australia	LIT		correcting lower	lithium
Lucapa Diamond	LOM		testing trendline	diamonds
Macphersons Res.	MRP		uptrend	silver
Medusa Mining	MML		uptrend	gold
Metals of Africa	MTA		surged higher, but at resistance line	zinc expl/graph.
MetalsX	MLX		breached downtrend	tin, gold
Mincor Resources	MCR		testing resistance line	nickel
MMJ PhytoTech	MMJ		uptrend being tested	medical cannabis
Mount Gibson	MGX		sideways	iron ore
Mustang Resources	MUS		heavy fall	diamonds, rubies
MZI Resources	MZI		new low	mineral sands
Newfield Resources	NWF		collapse on tiny volume	diamonds
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		looks like a short term top	gold

Oceana Gold	OGC		looks like a short term top	gold
Oklo Resources	OKU		breached downtrend	gold expl.
OM Holdings	OMH		New low	manganese
Orecorp	ORR		back to high	gold development
Orinoco Gold	OGX		short term down	gold development
Orocobre	ORE		through resistance and higher	lithium
Oz Minerals	OZL		steeply higher	copper
Paladin Energy	PDN		still in LT downtrend	uranium
Pacific American Coal	PAK		strong rise	coal
Pantorro	PNR		rising	gold
Panoramic Res	PAN		short term rising	nickel
Panterra Gold	PGI		new uptrend	gold production
Paringa Resources	PNL		breaching downtrend	coal
Peel Mining	PEX		down	copper
Peninsula Energy	PEN		testing downtrend	uranium
Perseus Mining	PRU		rising again	gold
Pilbara Minerals	PLS		ST downtrend, being tested	lithium/tantalum
Platina Resources	PGM		rising off lows	PGMs, gold
Potash West	PWN		down	potash
Red River Resources	RVR		breached uptrend	zinc
Regal Resources	RER		rising from lows	copper
Regis Resources	RRL		looks like a short term top	gold
Renaissance Min.	RNS		short term higher, with pullback	gold
Resolute Mining	RSG		breached steep uptrend	gold
Reward Minerals	RWD		down	potash
Rex Minerals	RXM		surge through downtrend	copper
RIO	RIO		steep ST uptrend	diversified
RTG Mining	RTG		strongly higher	copper/gold
Rum Jungle	RUM		turned down at resistance line	quartz
Salt Lake Potash	SO4		uptrend	potash
Saracen Minerals	SAR		new high	gold
St Barbara	SBM		new high	gold
Sandfire Resources	SFR		up, but meeting resistance	copper
Santana Minerals	SMI			silver
Santos	STO		new uptrend	oil/gas
Sheffield Resources	SFX		testing downtrend	mineral sands
Silver City Minerals	SCI		heavy fall	base metals
Silver Lake Resources	SLR		testing new uptrend	gold
Sino Gas & Energy	SEH		new uptrend	gas
Southern Gold	SAU		uptrend, but correcting pattern	gold
Sthn Hemisphere	SUH		down	copper
Stavely Minerals	SVY		breached downtrend	copper exploration
Sunbird Energy	SNY		New low	gas/CBM
Sundance Energy	SEA		surge higher	oil/gas
Syrah Resources	SYR		uptrend	graphite
Talga Resources	TLG		sideways through downtrend	graphene
Tanami Gold	TAM		down	gold
Tiger Resources	TGS		strong rise to secondary resistance	copper
TNG Resources	TGS		breaching ST uptrend	titanium, vanadium
Torian Resources	TNR		downtrend	gold expl'n
Toro Energy	TOE		downtrend	uranium
Triton Minerals	TON		in voluntary administration	graphite
Troy Resources	TRY		uptrend	gold
UraniumSA	USA		Secondary downtrend	uranium
URI	URI		downtrend	uranium
Vimy Resources	VMY		back to downtrend	uranium
West African Resources	WAF		new uptrend	gold
Westwits	WWI		back to recent lows	gold exploration/development

Western Areas	WSA		testing downtrend	nickel
Wolf Minerals	WLF		down	tungsten
Totals	41%	59	Uptrend	
	27%	39	Downtrend	
		145	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	22.8%	
Copper	18	12.4%	
Oil/Gas	10	6.9%	
Gold Exploration	10	6.9%	
Uranium	8	5.5%	
Graphite	7	4.8%	
Potash/Phosphate	7	4.8%	
Zinc	6	4.1%	
Nickel	5	3.4%	
Coal	5	3.4%	
Mineral Sands	5	3.4%	
Iron Ore	3	2.1%	
Tin	3	2.1%	
Lithium	4	2.8%	
Silver	3	2.1%	
Diamonds	3	2.1%	
Bauxite	2	1.4%	
Other	13		
Total	145		

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