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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

19 October 2019 | *On Friday's Close* | Analyst : Warwick Grigor

Graphite still difficult for producers while gold interest is moderating

Sentiment has been gradually weakening over recent weeks as the synchronised slowdown around the world has evolved against a backdrop of the trade war. Commodity prices have been easing in a direct response to lower growth expectations, though nickel continues to outperform other metals. Lack of conviction has been the most common mood of investors, even when fundamentals in specific sectors appear sound.

China's rhetoric on the international stage is looking increasingly untrustworthy. Its era of economic outperformance is becoming weary but there are some conflicting statistics with its copper imports rising 10% in September over the prior month, to reach a 10 month high. Iron ore imports rose for a third straight month to reach a 20 month high. Yet, there are still expectations that we are about to see the slowest growth rate in China for almost 30 years. Exports to the USA did drop 22% in September, but that is directly attributable to the trade war. Again, lack of conviction is the issue.

Profit taking dominates gold stocks

The best performing mining sector of 2019, the gold producers, looks as if it is done for a while. Profit taking has been active in recent weeks with many charts showing breakdowns of uptrends. It would need a concerted effort on the part of bullion to change the mood but there could still be trading opportunities while the gold price demonstrates volatility. The "*get set and forget"* approach would be a high risk strategy in the near term. Chart support levels for many of the companies is somewhat lower than current levels.

Dubai is a powerhouse of growth

Over the last week and a half I spent a few days in each of Sweden and the UAE (Dubai), places of extreme contrast and not just in the weather. About the only thing they have in common is a population of about 10 million people, but a very large proportion of Dubai's population is made up of expats.

Sweden is a conservative, European democratic socialist country where modesty of lifestyle is encouraged, with or without fears of climate change. The UAE is a federation of monarchies with Dubai being the brash, aggressive commercial hub. Democracy is more of a concept than a reality and the legal system works as a combination of both Sharia and civil law. Climate change concern is very low on the agenda as it is a modern society built upon rich oil enterprises, though policies and business are cognisant that the oil will not last forever.

Sweden is located in a very stable geopolitical environment but if you look at Dubai on Google maps and zoom out a little you see that it is very close to Iran. Zoom out a bit further and you see Yemen, Iraq, Afghanistan, Lebanon, Syria, Turkey, Sudan and many other places where armed conflict has been part of daily life for a long time. An Australian could be excused for fearing that this must be a dangerous region in which to live, but such worries are not holding back the growth in Dubai.

The purpose of going to Sweden was to delve into some very rich geological settings that have been the source of European mineral wealth for centuries, and which still today offer the promise of great, rich orebodies. ***Alicanto Minerals*** is a junior Australian company at the start of an exciting exploration program, bringing advanced geological analysis to the table for a refreshing interpretation of where the next orebodies could be.

The Dubai leg of the journey was for meeting up with investors and industry that is aggressively wanting to be at the cutting edge of new developments and technology. The proliferation of high rise buildings and associated risk of fires has developers searching for more effective fire retardants in cladding and other building materials. They are looking to graphene as a potential solution whilst also looking to see what other benefits graphene can introduce to building materials such as stronger and lighter weight concretes and polymers. It is a region not previously visited by ***First Graphene***, but that company is now aware of the potential for both offtake and the location of graphene manufacturing facilities that can benefit from low power costs. It is all part of the drive to commercialise graphene.

Revisiting graphene; the market leader wallows

During Diggers & Dealers in August, we met up with the CEO of Syrah and were advised that things were going much better. So, we thought that we would step back from our previous negative stance and give the Company a chance to demonstrate delivery. However, subsequent ASX releases have not reflected that optimism and we are back to the pessimistic outlook.

Syrah lost US$81m in the June Half. A sudden drop in natural flake graphite price in September has caused the Company to reduce production levels to 5,000 tpm, or 60,000 tpa, from the December quarter. The most recent comment is that it may have 90,000 tonnes of inventory to work through, suggesting that a period of care and maintenance is on the cards. Hence the share price is breaking to new lows.

If Syrah's performance is a reflection of the real world, how seriously can we be taking the optimism of the suite of graphite hopefuls out there? How do they get away with spruking their projects when the outlook is so dire? Bass Metals (BSM) is a graphite junior that initially promised big things, but how has it worked out in reality? Read on.

If we go back to early 2011, Bass was a confident owner of the Hellyer VMS mine in Tasmania, with grades of 9.1%Zn, 4.4% Pb, 73 gpt Ag, 1.8 gpt Au and 0.4% Cu at its new Fossey East discovery. A year later it was experiencing financial difficulties that resulted in several attempts to divest itself of these problematic assets.

Management and direction changed in mid 2015, with the announcement of a strategic investment in the Madagascan graphite mine owned by Stratmin Global Resources Plc. A 25% interest was to cost A$4.3m, with an option to move to 35% ownership. At the time we were rather sceptical of the opportunity, being aware that Stramin and the previous owner had experienced all sorts of operational difficulties. We cautioned our readers that there was a disconnect between what was being promoted and what was realistic. The 6,000 tpa production target appeared to be optimistic, in our opinion.

In April 2016, a revised deal was announced whereby Bass went to 100% ownership of the Loharano graphite mine. Cash consideration was to be A$1.5m, and share-based payments amounted to another $8.75m, subject to production targets being met. A $5m capped royalty was also agreed. It seemed to be a smarter deal to go to 100% as the market doesn't really give much value to minority investments.

An underwritten $5.5m, 1 for 1 rights issue at 1.2¢ a share was announced in July 2015, with an additional $1.5m placement facility. Control of the graphite mine was achieved in late August, 2016.

In December 2016, an unusual announcement may have raised a few eyebrows. The acquisition deal had changed again, reducing the total cost to Bass from A$15.25m to only A$5.39m. How often to you see a reduction like this? Perhaps we should be giving credit for the negotiating skills of Bass, to be able to do this, rather than be bound by the more expensive terms. Another placement at 1.3¢ raised a further $2.275m at the time.

An operational update in February 2017, indicated that things were going well. Capital expenditure on new equipment was undertaken and by June, an offtake MoU was signed for 50% of planned production. A further $6m equity raising was undertaken in September, at 1.1¢. The MoU was formalised as a sales agreement in October.

Dry commissioning of the refurbished treatment plant commenced in March 2018, and nameplate capacity was reached in August 2018, along with the first sale. Having achieved this target the vision then became a 20,000 tpa production rate, with a focus on expandable graphite for use in fire retardants. Another placement at 1.125¢ raised $3.3m in December, 2018. A convertible note raised $4m in June 2019.

Bass has proved itself to be a better operator than the previous two owners of the mine, achieving a rate of 4,500 wet tonnes in the recent September quarter. However, this is still only 75% of the target rate. It takes a long time to optimise a graphite treatment facility, a hard lesson also being learnt by Syrah.

While it is a technical credit to be able to develop or recommission a mine and processing plant, the challenges don't stop there. Operating mines can, and often do, lose money. Again, look at Syrah. How is Bass performing on this front? How is it weathering the lower graphite price regime?

Net cash flow according to the Appendix 5B for the year to June was a negative $7.8m, with the June quarter being responsible for $1.6m of that total. Cash at the end of the quarter was $1.5m. Thus it is still dependent upon external funding (equity/debt). Hence the recent convertible note issue. We will be keen to see the financial figures for the September quarter when they come out in the next week, along with transparency on prices received and unit operating costs at 75% capacity operating levels. When will the operations become cash flow positive, thereby creating the environment for a rising share price rather than one under assault from subsequent share issues?

The bottom line is that the Company has done credibly well so far, with the new management giving a hopeful future after the disastrous foray into Tasmanian base metals, but the final tests are yet to be passed.

While we are on graphite, Talga has announced a maiden JORC resource at its Niska graphite deposit in Sweden of 4.6 Mt at 25.8% Cg, adding to the Nunasvaara resource of 12.3 Mt at 25.5% Cg. Total JORC resources now stand at 52 Mt.

It was about five years ago that we did a site visit to Talga's projects, when we were told that work was underway to apply for a mining licence. That was a long time ago and we still can't see that a licence has been granted. Why not? More resources may be good, but what is the chance they will never be developed? One needs to be sceptical in this market.

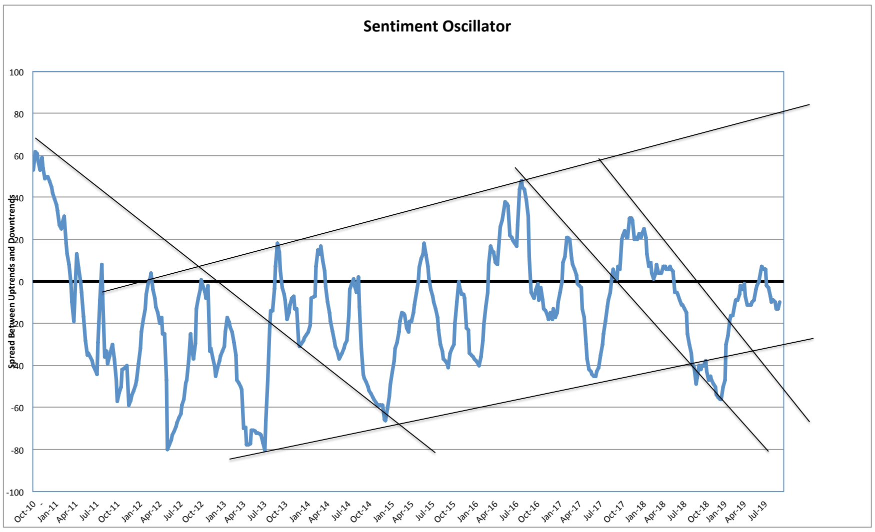
Nothing can happen overnight on climate change

What these climate change protestors need to realize is that there is no magic wand that any government can wave to solve the "problem". Any sort of solution is going to be complicated and it will take years of concerted action. Maybe you could ban the use of all cars, airplanes, heating and cooling overnight and that might go a long way to solving the problem, but where would that leave us? Human suffering on a massive scale and millions would die from starvation and other causes in the first year. Cities would become unliveable. There would be a mass exodus to the countryside and chaos would partner anarchy, spelling the death of modern civilization.

So, the protestors want governments to solve the problem for them. The trouble is, in a democratic society the governments have to cater for a wide range of people and interest groups. There is no point in ignoring that fact. If we really want to do something about climate change we should call an end to the hypocracy so evident in the lives of the protestors. They should lead by example. They should get rid of their cars and the big dogs. They should never turn on a heater or an air conditioner. They should never get into a plane or board a ship. They should be growing their own food and carrying the water in buckets from wells that they work manually. But no, this they would never do. It is far more convenient to blame the government like the spoilt brats that they are than to change their comfortable lives.

Humans are on the Earth for a limited amount of time. We are nothing more than a virus on Gaia. Eventually we will destroy our environment and we will become extinct in the absence of some new technology that might save us all. Even then it will always be a matter of holding back the tide. All the science fiction films we see about overpopulation and the society of the future are windows on what we can expect. The most extreme films that advocate massive reductions in the human population might actually offer the only real solution, but to do so would be inhumane. In the meantime we can all live more modestly and frugally, basing our lives on needs rather than wants if we want to do our bit.

Disclosure: Interests associated with the author won shares and options in Alicanto Minerals and First Graphene. The author is a director of First Graphene and received payments and fees for service rendered.



Sentiment Oscillator: Sentiment has been drifting lower in recent weeks. There were 34% (32%) of the charts in uptrend and 44% (45%) in downtrend on Friday's close.

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, in a wedge	
Metals and Mining	XMM		down	
Energy	XEJ		testing downtrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA			continuing higher	HPA
Adriatic Resources	ADT		broad, shallower uptrend	zinc
Aeon Metals	AML		new low	copper + cobalt
Alacer Gold	AQG		new high	gold – production
Alkane Resources	ALK		steeply higher	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alchemy Resources	ALY		sideways	nickel, cobalt
Alicanto Minerals	AQI		fallen to support line	gold exploration
Allegiance Coal	AHQ		resistance ar 15¢	coal
Alliance Resources	AGS		higher	gold exploration
Altech Chemicals	ATC		rallied meet resistance line	industrial minerals - synthetic sapphire

Apollo Consolidated	AOP		rising	gold exploration
Arafura Resources	ARU		breached downtrend	rare earths
Argent Minerals	ARD		down	silver
Aurelia Metals	AMI		continuing with less steep downtrend	gold + base metals
AusTin	ANW		new low	tin, cobalt
Australian Bauxite	ABX		sideways	bauxite
Australian Potash	APC		continuing with uptrend	potash
Australian Mines	AUZ		testing secondary downtrend	cobalt/nickel
Australian Vanadium	AVL		new low	vanadium
BHP	BHP		less steep downtrend	diversified, iron ore
Base Resources	BSE		sideways	mineral sands
Bathurst Resources	BRL		down	coal
BBX Minerals	BBX		down	gold exploration
Beach Energy	BPT		risen through resistance line	oil and gas
Beacon Mining	BCN		breached uptrend	gold production
Bellevue Gold	BGL		correcting lower after placement	gold exploration
Berkeley Energia	BKY		in secondary downtrend	uranium
Blackstone Minerals	BSX		correcting lower	gold, cobalt
Bounty Coal	B2Y		still in downtrend	coal
Breaker Resources	BRB		down	gold exploration
Broken Hill Prospecting	BPL		steeply higher, then all the way back down	minerals sands
Buru Energy	BRU		testing uptrend	oil
Buxton Resources	BUX		continuing down	nickel exploration
Capricorn Metals	CMM		sideways consolidation	gold
Cardinal Resources	CDV		breached uptrend	gold exploration
Cassini Resources	CZI		softer	nickel/Cu expl.
Celsius Resources	CLA		falling back to lows	copper/cobalt
Chalice Gold	CHN		new uptrend	gold exploration
Chase Mining	CML		down heavily - missed drill target	nickel/copper/PGE
Chesser Resources	CHZ		breached downtrend	gold exploration
Cobalt Blue	COB		breaching downtrend, but pullback	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, but weaker	gold
Emerald Resource	EMR		gentle downtrend	gold
Evolution Mining	EVN		correcting lower	gold
Exore Resources	ERX		higher for placement then slump	gold exploration
FAR	FAR		sideways at lows	oil/gas
First Graphene	FGR		short term down	graphene
Fortescue Metals	FMG		rallying	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		sideways movement	lead
Galilee Energy	GLL		slump back to trend line support	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		down heavily	potash
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		breached downtrend	mineral sands
Image Resources	IMA		regained uptrend	mineral sands
Independence Group	IGO		new high	gold, nickel
ioneer (was Global Geoscience)	INR		rising again	lithium
Jervois Mining	JVR		sideways at lows	nickel/cobalt
Jindalee Resources	JRL		heavy fall	lithium
Karoon Gas	KAR		heading lower	gas
Kasbah Resources	KAS		new low	tin
Kibaran Resources	KNL		new low	graphite
Kin Mining	KIN		new low	gold
Legend Mining	LEG		stronger	nickel exploration
Lepidico	LPD		down	lithium
Lithium Australia	LIT		new low	lithium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		secondary uptrend	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		rising	gold exploration
MetalsX	MLX		rallying	tin, nickel
Metro Mining	MMI		back to downtrend	bauxite
Mincor Resources	MCR		continuing higher	gold
Musgrave Minerals	MGV		breached downtrend	gold exploration
Myanmar Minerals	MYL		new low	zinc
Nelson Resources	NES		new uptrend	gold exploration
Neometals	NMT		continuing down	lithium
Northern Cobalt	N27		surge out of downtrend	cobalt
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		down heavily	gold
NTM Gold	NTM		rising again	gold exploration
Oceana Gold	OGC		failed at resistance line	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		down	copper
Pacific American Holdings	PAK		sideways	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		down	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		down	rare earths

Peel Mining	PEX		still down	copper
Peninsula Energy	PEN		down	uranium
Pensana Metals	PM8		testing downtrend	rare earths
Perseus Mining	PRU		correcting	gold
Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		new uptrend forming	gold, silver, zinc
Polarex	PXX		breached uptrend	polymetallic exploration
Prodigy Gold	PRX		sideways	gold exploration
Ramelius Resources	RMS		new high	gold production
Real Energy	RLE		new low	gas
Red5	RED		correcting lower	gold
Red River Resources	RVR		now in secondary downtrend	zinc
Regis Resources	RRL		on support line	gold
Resolute Mining	RSG		heavy correction	gold
RIO	RIO		down	diversified, iron ore
Salt Lake Potash	SO4		breached uptrend	potash
Saracen Minerals	SAR		breached uptrend	gold
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		uptrend	gold exploration
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		but heavy correction	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Strandline Resources	STA		down	mineral sands
Sundance Energy	SEA		heading lower	oil/gas
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		breached downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Tiger Realm	TIG		down	coal
Troy Resources	TRY		testing downtrend	gold
Vango Mining	VAN		moving higher	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		sideways under LT downtrend	uranium
West African Resources	WAF		improving	gold
Westgold Resources	WGX		breached 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		breached ST uptrend	gold exploration
Zinc Mines of Ireland	ZMI		breached downtrend	zinc

Totals	34%	49	Uptrend	
	44%	63	Downtrend	
		143	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts

Sector	No. of Companies	Weighting	
Gold	33	23.1%	
Gold Exploration	19	13.3%	
Nickel	10	7.0%	
Oil/Gas	9	6.3%	
Coal	8	5.6%	
Lithium	8	5.6%	
Mineral Sands	6	4.2%	
Zinc/Lead	7	4.9%	
Rare Earths	6	4.2%	
Potash/Phosphate	5	3.5%	
Copper	5	3.5%	
Cobalt	4	2.8%	
Graphite	4	2.8%	
Tin	3	2.1%	
Iron Ore	3	2.1%	
Uranium	3	2.1%	
Bauxite	2	1.4%	
Vanadium	2	1.4%	

Silver	**2**	**1.4%**	
Diamonds	**1**	**0.7%**	
Other	**3**		
Total	**143**		

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