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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

22 June 2019 | Charts on Friday's Close | Analyst : Warwick Grigor

Gold punches through US$1400/oz and A$2,000/oz. Let the good time roll

Our markets continue to power on to higher levels, most notably the All Ords and the Mining indices. Iron ore prices are strong, as is the gold price. The oil price is breaking higher. Interest rates are trending down. The threat of war isn't worrying investors. Everything seems to be going well.

Gold is going for a good run

Like we said in January, gold was going to be the commodity most likely to offer trading profits in 2019 due to the uncertainty of global geopolitics. On Wednesday night the gold price did what everyone was wanting it to do - it punched through the US$1,350 level and as a natural consequence virtually all the gold stocks surged in Thursday's trading. That was a great result. It held these levels and surged higher on Friday night, pushing through the US$1,400/oz barrier for the first time since September 2013.

This time is is easy to find the cause; the escalating tension between the US and Iran, while the prospects of interest rate cuts adds a bit more substance to the story. Chartists are calling this a major breakout and they are looking for moves to higher levels, but as investors you will need to stand back and factor in what the aggressive traders are doing and when they will take profits. Expect volatility.

It's the gold producers that will do best out of this run, as opposed to the hundreds of junior gold explorers. Maybe these waifs will be able to raise money now to prolong their existence, but if they all do this at once it will kill the small end of the market.

Proof that graphene is a fire retardant game changer

Last Monday First Graphene made an important release regarding the fire retardancy of polyurethane elastomers when they are enhanced with PureGRAPH® at a level of 1%wt. The significance of this news is such that it deserves some extra attention.

Polyurethane materials are used in a wide range of applications such as insulation, protective layers, bedding, foams and automobiles to name a few. Some people may think of the material as a plastic, but this is too simplistic. It is much more than just plastic.

One issue with using polyurethane is that it can be highly flammable with the basic material burning readily at atmospheric oxygen levels of 21.5% i.e. at normal oxygen levels we breath every day, unless it has a flame retardant added to the mixture. Most of the commercial fire retardants have issues with toxicity and lowering of the mechanic strength, so they can bring another set of problems.

We know that PureGRAPH® has excellent fire retardant properties and this is shown clearly with FireStop™, a revolutionary new fire retardant in a paint form that FGR is working towards commercialising. However, graphene's fire retardancy extends much further. Recent test work undertaken by FGR and the University of Adelaide has provided the scientific explanation behind what we had already observed; adding 1% PureGRAPH® provided a significant effective increase in fire retardancy of polyurethane materials. Its addition increases the oxygen levels needed to sustain a fire to 31.6%, which is a level much higher than atmospheric oxygen. The polyurethane will not burn on its own unless there is a significant source of added oxygen.

How will this affect our daily lives? Think about insulation material used in packaging, in consumer products and in insulation cladding materials on buildings. Could the use of graphene significantly slow down the spread of the fire in high rise buildings, thereby giving residents much more time in which to escape the building so as to minimise the loss of life? It seems like the answer to this question is a definite yes, though as usual, there is always more test work required for specific products.

Specifically, retardancy in the mining sector

Polyurethanes are used in sacrificial wear liners and in many items of mining equipment and process plants. There is a constant danger of fires with this equipment as we saw recently in the RIO fire in its Cape Lambert screening plant in January, during regular maintenance procedures. It is understood that polymer/rubber liners caught fire. In April 2018, RIO suffered a fire at Yandicoogina that quickly spread along the conveyer belt. In 2017, BHP experienced a fire at the Mt Whaleback treatment plant. While it is difficult to get the exact facts on these fires, anecdotal evidence suggests that flammable polymer/rubber liners were a contributing factor to the extensive damage suffered.

So, FGR is already selling its PureGRAPH® to newGen, which adds it to polymer liners for mining buckets to get better than 50% increases in tear strength and 100-500% better abrasion resistance. As if that wasn't enough incentive to switch to graphene enhanced liners, the fire retardancy that "gets thrown in for free" makes it a definite must.

Welcome to the graphene age and the benefits it brings. First Graphene is at the leading edge of this revolution in materials, having just received NICNAS approval to sell graphene materials in Australia, adding to the already achieved REACH status in the UK and Europe. Now it is a matter of penetrating markets and building the sales book. The fire retardancy is developing into a major selling point due to it effectiveness and absence of toxicity.

Disclosure: The author is chairman of First Graphene and is remunerated accordingly, and interests associated with the author are shareholders and option holders in First Graphene.

Syrah is still on the canvas taking smelling salts

On the one hand Syrah is fortunate that it doesn't have bank finance for its graphite project in Mozambique, because if it did, the probability is that the banks would have stepped into the drivers seat to protect their funds. However, the flip side is that the project never went through the sort of rigour that debt financiers insist on before lending money. Maybe that is why the project is still struggling today.

Wednesday's announcement that the Company was going through another round of equity and convertible note funding to raise $111.6m comes only nine months after a $94m placement at $2.23 a share, last September. This time shareholders get the opportunity to participate in a 1 for 5 issue at the discounted price of 81¢ a share. The question to ask though, is whether this is just throwing good money after bad? How is the project really going, and will it ever turn a profit?

In the March quarter Syrah produced 48,000 tonnes of graphite concentrates. The weighted average price it achieved was US$469/ pt. Net cash outflow was US$14.5m and the company forecast that the cash balance at 30 June would be US$43m. Why does it need to raise another A$111m at such a low price? Is it expecting continued cash drain?

As recently as February 2018, having achieved first production in November 2017, SYR was forecasting production capacity of 350,000 tpa. The recent quarterly showed a rate of 192,000 tpa, only 54% of the planned capacity. It is very hard to make money at half speed. It was predicting costs of <US$400 pt, and towards US$300 pt in fact. Last quarter it said costs were "trending towards US$400 pt". So, costs are still much higher than forecast.

As poor as this performance has been, the real problem lies with the price being received for the product from this "*Tier 1*" asset that was supposed to be "*fully funded*" as at November 2017.

Over time Syrah has announced a number of sales agreements with various companies. However, there was usually one important item that wasn't disclosed - the sales price. In its presentations the Company said in the risk section that "*there is no transparent market for graphite*" and that it was "*heavily reliant on the price of graphite*". Throughout the development and commissioning phase of the Balama project, this was an ever present risk that most people failed to consider. In its presentations to investors Syrah consistently boasted that its product quality and grade would ensure a premium price, but so far we have not seen any evidence of the said premium.

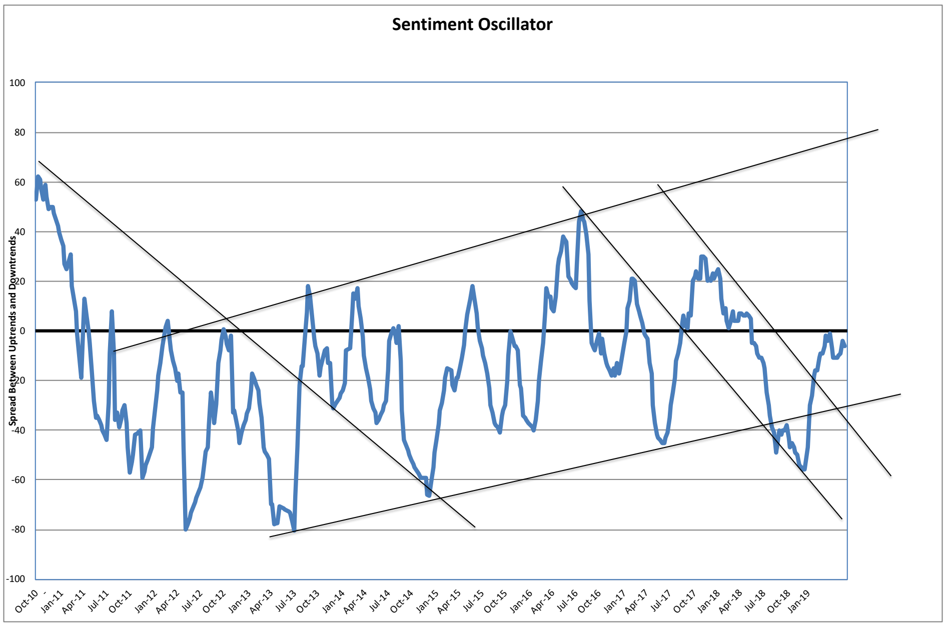
Back in 2016, there was a presentation on the feasibility study that said the assumed weighted average price was US$1,000 pt (fob) and average mine cost was going to be US$286 pt. If these numbers had been relevant last quarter the gross operating margin would have been US$34m. Instead, the sales price was US$469 pt and the cash outflow was US$14.7m.

With a market capitalisation of $339m (pre the raising), Syrah is still a substantial company. Will it continue to bleed cash? Is the graphite price received going to shoot higher and can it cut costs? If everything works in its favour there might be a future, but until we see the evidence in the reported numbers this has to remain in the very high risk category.

A few years ago many people thought I was a graphite expert, so they all brought their graphite projects to me. They all wanted the type of share price performance that Syrah was getting, and some of them did get it, for a while. However, my view was that the operational and financial performance of Syrah was always going to have gargantuan implications for the graphite sector. If the Balama project worked it was going to flood the market with product such that there wouldn't be any room for other entrants. If it didn't work, the collateral damage was going to make it almost impossible to fund other projects. So far it is not working and there isn't a graphite company that I would be prepared to recommend to investors.

The statement in the release this week that "*Increasing production too rapidly in the short term in order to target market penetration may not be optimal for pricing outcomes*" is worrying. Is the company just making excuses for the plant not working properly, or is it acknowledging that the graphite price remains under pressure? Either scenario should make shareholders nervous.

WE have added emerging gold producer, Beacon Mining (BCN) to our chart coverage.



Sentiment Oscillator: Sentiment was marginally weaker. There were 31% (31%) of the charts in uptrend and 37% (35%) 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		broken though all resistance	
Metals and Mining	XMM		new high	
Energy	XEJ		back to LT uptrend, at apex of wedge	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Adriatic Resources	ADT		rising but on shallower line	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		sideways near lows	nickel, cobalt
Alicanto Minerals	AQI		rising	gold exploration
Allegiance Coal	AHQ		new high	coal
Alliance Resources	AGS		still down	gold exploration
Altech Chemicals	ATC		sideways after breaching uptrend	industrial minerals - synthetic sapphire
Apollo Consolidated	AOP		still in wedge	gold exploration
Argent Minerals	ARD		back to lows after placement	silver
Aurelia Metals	AMI		testing downtrend	gold + base metals
AusTin	ANW		new low	tin, cobalt
Australian Bauxite	ABX		sideways	bauxite

Australian Potash	APC		in a wedge	potash
Australian Mines	AUZ		strong rise, but heavy pullback	cobalt/nickel
Australian Vanadium	AVL		new low	vanadium
BHP	BHP		new high	diversified, iron ore
Base Resources	BSE		pullback	mineral sands
Bathurst Resources	BRL		sideways	coal
Battery Minerals	BAT		new low	graphite
BBX Minerals	BBX		pullback	gold exploration
Beach Energy	BPT		breached uptrend	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		back to lows	gold, cobalt
Bounty Coal	B2Y		rallying	coal
Breaker Resources	BRB		testing uptrend	gold exploration
Broken Hill Prospecting	BPL		off its lows	minerals sands
Buru Energy	BRU		new uptrend	oil
Buxton Resources	BUX		testing downtrend	nickel exploration
Cardinal Resources	CDV		new low	gold exploration
Cassini Resources	CZI		consolidating	nickel/Cu expl.
Celsius Resources	CLA		strong recovery	copper/cobalt
Chalice Gold	CHN		testing downtrend	gold exploration
Chesser Resources	CHZ		surged out of downtrend, then heavy pullback	gold exploration
Cobalt Blue	COB		off its lows	cobalt
Dacian Gold	DCN		collapse on operations update	gold
Danakali	DNK		sideways	potash
Davenport Resources	DAV		down	potash
Egan Street Resources	EGA		drifting	gold
Emerald Resource	EMR		sideways	gold
Evolution Mining	EVN		rising	gold
Exore Resources	ERX		sideways	gold exploration
FAR	FAR		sideways at lows	oil/gas
First Graphene	FGR		consolidating near highs	graphene
Fortescue Metals	FMG		near highs	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		consolidating near highs	lead
Galilee Energy	GLL		new high	oil and gas, CBM
Gold Road	GOR		rising	gold
Graphex Mining	GPX		continuing in uptrend	graphite
Heron Resources	HRR		breaching downtrend	zinc
Highfield Resources	HFR		surge to new high on Environmental Permit	potash
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		at lows	battery metals
Iluka Resources	ILU		stronger	mineral sands

Image Resources	IMA		higher	mineral sands
Independence Group	IGO		breached uptrend	gold, nickel
ioneer (was Global Geoscience)	INR		testing downtrend, then pullback	lithium
Jervois Mining	JVR		testing uptrend	nickel/cobalt
Jindalee Resources	JRL		start of a new uptrend	lithium
Karoon Gas	KAR		breached new uptrend	gas
Kasbah Resources	KAS		breached new uptrend	tin
Kibaran Resources	KNL		new uptrend forming	graphite
Kin Mining	KIN		sideways	gold
Legend Mining	LEG		sideways to lower	nickel exploration
Lepidico	LPD		breached uptrend	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		coming back from high	rare earths
Mako Gold	MKG		back to lows	gold exploration
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		breached downtrend	tin, nickel
Metro Mining	MMI		new low	bauxite
Mincor Resources	MCR		new uptrend forming	gold
Musgrave Minerals	MGV		down	gold exploration
Myanmar Minerals	MYL		uptrend being tested	zinc
Nelson Resources	NES		strong rally	gold exploration
Neometals	NMT		testing downtrend	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		surged to reach resistance line	REE
Northern Star Res.	NST		new high	gold
NTM Gold	NTM		gentle downtrend	gold exploration
Oceana Gold	OGC		breached downtrend	gold
Oklo Resources	OKU		bounce from lows	gold expl.
Orecorp	ORR		correcting back to support line	gold development
Orocobre	ORE		sideways	lithium
Oz Minerals	OZL		rising again	copper
Pacific American Coal	PAK		at lows	coal
Pantoro	PNR		testing support line	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		surging to new high	rare earths
Peel Mining	PEX		still down	copper
Peninsula Energy	PEN		tracing back to resistance/support line	uranium
Pensana Metals	PM8		surge to high	rare earths
Perseus Mining	PRU		surge to new high	gold
Pilbara Minerals	PLS		testing downtrend	lithium
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		surge higher	polymetallic exploration
Prodigy Gold	PRX		rising	gold exploration

Ramelius Resources	RMS		breached uptrend	gold production
Real Energy	RLE		back to lows	gas
Red5	RED		new high	gold
Red River Resources	RVR		pullback after breaching downtrend	zinc
Regis Resources	RRL		rising	gold
Resolute Mining	RSG		sideways through uptrend line	gold
RIO	RIO		off its highs	diversified, iron ore
Salt Lake Potash	SO4		surged higher	potash
Saracen Minerals	SAR		surged higher	gold
St Barbara	SBM		collapse	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Sheffield Resources	SFX		back to lows	mineral sands
St George Mining	SGQ		down	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Strandline Resources	STA		pullback after placement	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		short term down	vanadium
Tiger Realm	TIG		surged higher, at resistance line	coal
Triton Minerals	TON		breached secondary downtrend	graphite
Troy Resources	TRY		bounced off its lows	gold
Vango Mining	VAN		breached downtrend	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		new uptrend breached	uranium
Volt Resources	VRC		down	graphite
West African Resources	WAF		struggling around resistance line	gold
Westwits	WWI		down	gold
Western Areas	WSA		ST uptrend breached	nickel
Whitebark Energy	WBE		sideways	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		sideways	gold exploration
Totals	31%	43	Uptrend	
	37%	51	Downtrend	
		138	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	31	22.5%	
Gold Exploration	18	13.0%	
Oil/Gas	9	6.5%	
Graphite	7	5.1%	
Nickel	9	6.5%	
Coal	8	5.8%	
Lithium	8	5.8%	
Mineral Sands	6	4.3%	
Zinc/Lead	6	4.3%	
Potash/Phosphate	5	3.6%	
Copper	5	3.6%	
Cobalt	4	2.9%	
Rare Earths	4	2.9%	
Tin	3	2.2%	
Iron Ore	3	2.2%	
Uranium	3	2.2%	
Bauxite	2	1.4%	
Vanadium	2	1.4%	
Silver	1	0.7%	
Diamonds	1	0.7%	
Other	3		
Total	138		

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